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REPORT BY THE

Comptroller General

OF THE UNITED STATES

COMPLETED
97

Civil Service Reform After Two Years: Some Initial Problems Resolved But Serious Concerns Remain

The Office of Personnel Management and Federal agencies are currently implementing several major provisions authorized by the 1978 Civil Service Reform Act. GAO has identified several problems in the Senior Executive Service, Federal Equal Opportunity Recruitment Program, performance appraisal, and merit pay that could seriously affect the success of the Government's new personnel management system.

Startup and transition problems that hindered the first-year operations of the Merit Systems Protection Board, the Office of the Special Counsel, and the Federal Labor Relations Authority have largely been resolved. However, Federal hiring restrictions have prevented these agencies from filling all authorized positions.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-204941

The President
The White House

The Honorable George Bush
President of the Senate

The Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives

Title I of the Civil Service Reform Act of 1978 (Reform Act) requires us to submit annual reports to the President and the Congress on the significant activities of the Office of Personnel Management (OPM) and the Merit Systems Protection Board (MSPB), including the Office of the Special Counsel. In addition, the former Chairman, Senate Committee on Governmental Affairs, requested that we include the activities of the Federal Labor Relations Authority (FLRA) in our reports submitted under Title I.

OBJECTIVES, SCOPE, AND METHODOLOGY

To fulfill our reporting requirements, this is the second annual report on the activities of these offices. Our objective was to present (1) the status of problems we discussed in our series of first annual reports 1/ and (2) summaries of other reports on implementation of the Reform Act that were issued since the first annual reports. We also present matters currently under review by our office.

Since the first annual reports, we issued 15 studies on various Reform Act programs and related activities. For this report, we also discussed the status of findings from the first annual reports with officials of OPM, MSPB, the Office of the Special Counsel, and FLRA. We reviewed related agency reports, budgets, program plans, and other documents. Work was performed at the headquarters of these organizations in Washington, D.C., and at selected field offices of the MSPB, Office of the Special Counsel, and FLRA.

1/"The Federal Labor Relations Authority: Its First Year In Operation" (FPCD-80-40, Apr. 2, 1980); "Civil Service Reform--Where It Stands Today" (FPCD-80-38, May 13, 1980); and "First Year Activities of the Merit Systems Protection Board and the Office of the Special Counsel" (FPCD-80-46, June 9, 1980).

MOST STARTUP PROBLEMS ARE BEING RESOLVED

The startup and transition problems--funding, staffing, and office space--that seriously impaired MSPB, the Office of Special Counsel, and the FLRA in their first year are slowly being resolved. For example, they will get more office space in the fall of 1981.

While the staffing and activity of these offices generally increased during the second year, the Federal hiring freeze and budget cuts curtailed some plans for full operation. Staffing and funding problems appear to be most severe at the Office of the Special Counsel. A reduction in the Office's budget from $4.5 million to $2.5 million in 1980 resulted in a near total cessation of activity for several weeks and a large backlog of whistleblower cases and cases of alleged prohibited personnel practices. Although the fiscal year 1981 budget restored some of these funds, hiring restrictions remained in effect, and Special Counsel officials estimate that they will be able to process only about half the cases received in fiscal year 1981.

Progress made on other startup problems we reported in 1980 includes the following:

--A permanent Special Counsel has been appointed, and a closer working relationship is developing between MSPB and the Office of Special Counsel for more effective oversight of Federal merit systems.

--MSPB has issued additional guidance to its field offices on policies concerning appeal processing and interpretations of the Reform Act; the Board is also monitoring its field office caseload and shifting cases among offices to reduce backlogs and expedite processing.

--The FLRA reorganized its headquarters to improve case processing and established an interim system of setting deadlines for case processing. Officials of the Federal Service Impasses Panel--a separate entity within FLRA--and the Federal Mediation and Conciliation Service have met and worked out informal arrangements to clarify their respective responsibilities and reduce delays and duplication of effort.

IMPLEMENTATION OF THE REFORM ACT

Subsequent to our first annual reports in 1980, we issued 15 others on various programs and activities authorized by the Reform Act. Most of these pertain to OPM because it is responsible for implementing most of the personnel management features

of the Act. As we reported last year, OPM has continued to make progress in these areas, primarily by preparing regulations and studies to evaluate the Act's impact. There are, however, several problems that could impair the success of the Act. Our reports and the problems they address are summarized below.

Oversight of Senior Executive Service (SES) positions

When SES positions were initially established, tight deadlines, the large number of positions involved, and agencies' limited documentation of their SES needs impaired OPM's ability to review and allocate these positions. To achieve more consistency in the allocation process, we recommended that OPM more closely monitor agencies' reviews of SES positions, which are required every 2 years. OPM officials agreed that more consistency in SES allocation requests and authorizations was desirable and that they were working toward this goal for future allocation periods. (See app. I for a digest of our report, "First Step Completed in Conversion to Senior Executive Service," FPCD-80-54, July 11, 1980.)

SES performance awards

Several of our reports show that SES bonuses tend to go to higher level SES members, including members of the SES Performance Review Boards, and that most agencies grant the maximum number of allowable bonuses. Although the awards usually do take into account the performance of the member, they are also often based on factors such as job difficulty and risk, salary history and commitment of the member, and the attitude that no subordinate should receive more compensation than his/her supervisor.

Because of steadily worsening executive pay problems, factors other than job performance are being considered when granting bonuses, and because top level SES members are likely to have substantially more responsible or difficult jobs than others, but at no extra salary, there is often a tendency to use bonuses to recognize those differences. Executive pay increases would alleviate this tendency and create appropriate differentials among SES pay levels. Pay compression also undermines advancement incentives and impairs recruitment and retention of talented executives. (See app. II through V for our letter reports and digests of reports, "Federal Executive Pay Compression Worsens," FPCD-80-72, July 31, 1980; "First Look at Senior Executive Service Performance Awards," FPCD-80-74, Aug. 15, 1980; "First Look at Senior Executive Service Awards at the Small Business Administration," FPCD-80-86, Sept. 19, 1980; and "First Look at Senior Executive Service Performance Awards at MSPB," FPCD-80-87, Sept. 19, 1980.)

Merit pay and performance appraisal

Merit pay for most General Schedule grade 13 through 15 employees began in October 1981. Merit pay determinations are to be based on objective, job-related performance criteria. We believe many agencies are not well prepared for merit pay because they have not sufficiently developed these measurable objectives upon which to base performance and have not pretested their systems or adequately trained their employees to use these systems. We recommended that Congress and the President allow more time for implementing merit pay; however, OPM agreed that pretesting and training are important, but believed that at least the minimum amount necessary had been provided, and that merit pay implementation need not be delayed. (See app. VI and VII for digests of our reports, "Federal Merit Pay: Important Concerns Need Attention," FPCD-81-9, Mar. 3, 1981; and "Serious Problems Need To Be Corrected Before Federal Merit Pay Goes Into Effect," FPCD-81-73, Sept. 11, 1981.) We also raised similar concerns about the performance appraisal systems for Federal executives. (See app. VIII for our report, "Evaluations Called For To Monitor and Assess Executive Appraisal Systems," FPCD-81-55, Aug. 3, 1981.)

Federal Equal Opportunity Recruitment Program

Implementation of this program to help the Federal Government achieve its affirmative action goals has been slow, pending the resolution of a number of issues. Some of these involved clarification of the roles of OPM and the Equal Employment Opportunity Commission and the availability and use of information on the representation of women and minorities in the work force. Agencies delayed their recruitment plans because OPM guidance was late, data collection requirements were extensive, and the relationship between the program and affirmative action plans had to be clarified; however, progress was being made and the agencies appear committed to the program. (See app. IX for a digest of our report, "Achieving Representation of Minorities and Women in the Federal Work Force," FPCD-81-15, Dec. 3, 1980.)

Research and demonstration programs

Title VI of the Reform Act authorizes research and demonstration projects to determine whether changes in personnel management policies and procedures would result in improved Federal personnel management. The results from Title VI are not encouraging. Few initial proposals were made for these projects, and those selected may have little potential for application beyond the demonstration sites. OPM had initiated important steps to better manage this program; however, funding for the program for fiscal year 1982 has

been significantly reduced. As a result, an OPM official believed they will not be able to carry out the objective of this part of the Reform Act. (See app. X for our letter report to OPM on OPM's Initial Attempts to Implement Demonstration Provisions of the Civil Service Reform Act of 1978, FPCD-80-63, Sept. 5, 1980.)

Whistleblowers

We reported that, notwithstanding its continued funding and staffing problems, the Special Counsel's office could better manage its whistleblower responsibilities. We found delays in case processing, poor communication with whistleblowers, and inadequate followup of agencies' responses to complaints that jeopardize the Special Counsel's relationship with whistleblowers. (See app. XI for our report, "The Office of Special Counsel Can Improve Its Management of Whistleblower Cases," FPCD-81-10, Dec. 30, 1980.)

Early retirement

The Reform Act liberalized the Government's policy of allowing employees to retire earlier than normal when there was a possibility that personnel reductions would cause employees to be dismissed. The law now allows employees to retire early during reorganizations and function transfers when no one is facing dismissal. Therefore, we recommended that the early retirement provision of the Reform Act be repealed and that OPM grant agencies early retirement authorizations only in reduction-in-force situations to save jobs for other employees. (See app. XII for a digest of our report, "Voluntary Early Retirements in the Civil Service System Too Often Misused," FPCD-81-8, Dec. 31, 1980.)

Employees excluded from the Reform Act

For reasons that are unclear, employees of some Government corporations were excluded from Reform Act protections against prohibited personnel practices such as discrimination, political coercion, and reprisals. We recommended that the law be amended to extend such protection to Government corporations where civil service laws and regulations on the appointment and removal of employees normally apply. (See app. XIII for our report to the Chairmen, Senate Committee on Governmental Affairs and House Committee on Post Office and Civil Service, on Federal employees excluded from certain provisions of the Civil Service Reform Act of 1978, FPCD-81-28, Apr. 7, 1981.)

Interagency Advisory Group

This organization is a forum for regular communication and policy development between OPM and agency personnel directors. With the advent of the Reform Act, the Group and its activities

were restructured in recognition of the decentralized personnel activities in the Federal Government. We reviewed the new structure and recommended additional organizational and membership changes. We believe these changes would strengthen the Group's image as an advisor and stimulate its involvement in policy development. (See app. XIV for our letter to OPM on the Interagency Group for Personnel Policy and Operations, FPCD-80-77, Sept. 15, 1980.)

AGENCY COMMENTS

The Office of the Special Counsel generally agreed with the information presented and the MSPB and FLRA had no comments. (See app. XV through XVII.) OPM generally reiterated its views expressed on our earlier reports. Their main areas of disagreement with our position are that SES bonuses may be based on factors other than performance and that the implementation of merit pay need not be delayed. (See app. XVIII.) We continue to believe, however, that these problem areas could seriously affect the success of Civil Service Reform.

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Matters relating to the Reform Act currently under review by our Office are as follows.

--SES performance appraisal systems, including how well program and individual performance are linked in the appraisal processes.

--Effects of Presidential transition on the SES.

--Handling of alleged unfair labor practices under the Reform Act.

--Operations of MSPB's Merit Systems Review and Studies Office.

--Impact of OPM's delegation of examining and other personnel authorities under the Reform Act.

--Agency employee grievances and complaints under the Reform Act.

--OPM's efforts to evaluate the Reform Act's implementation and impact.

We are sending copies of this report to the Directors, Office of Management and Budget and OPM; the Vice Chair, MSPB; the Special Counsel, Office of the Special Counsel; the Chairmen, Federal Labor Relations Authority and Federal Service Impasses Panel; and the Director, Federal Mediation and Conciliation Service.

Charles A. Bowsher

Comptroller General
of the United States

APPENDIX I

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

FIRST STEP COMPLETED IN CONVERSION TO SENIOR EXECUTIVE SERVICE

D I G E S T

The Senior Executive Service (SES) became a reality in the Federal Government on July 13, 1979, when more than 98 percent of Federal executives in SES-designated jobs became members.

The Office of Personnel Management (OPM) did a creditable job as the focal point for converting positions and executives to SES despite rigid time constraints and the need to make major changes in Federal personnel management, but some concerns remain. Also, OPM and the agencies are still designing and implementing major elements--like performance appraisal and executive development systems.

Created by the Civil Service Reform Act of 1978 as one of several ways to improve Federal personnel management, SES covers most executive branch managers in positions classifiable at GS-16 through Executive Level IV. OPM is responsible for executing, administering, and enforcing rules and regulations governing SES. However, SES has a minimum of regulations which is consistent with OPM's goal of decentralizing personnel management. (See p. 1.)

Whether SES will improve the efficiency and effectiveness of the Federal Government will be determined by practical application and the ability of agencies to improve the quality of public service. Its success will require the combined work of the Congress, OPM, executive agencies, and SES executives. (See p. 7.) GAO identified several specific areas which still require attention.

OPM's review of possible SES positions during the first allocation process was affected by

tight time schedules and the many positions to be considered. Greater consistency can be achieved in the next allocation process if OPM prepares guidelines for agencies and internal review procedures which will draw on the knowledge gained in the first allocation process. (See p. 9.)

SES has two types of positions: general and career reserved. The general position is the norm--executives with career, noncareer, or limited status may occupy this position. Only a career appointee can occupy a career-reserved position.

GAO found positions that appeared to meet the career-reserved criteria which were designated "general" and positions with similar responsibilities being treated differently. For example, several agencies designated key internal audit positions as general. OPM needs to consider adding several occupational disciplines to its criteria for positions normally career reserved and increase monitoring to insure that general positions are properly designated and do not involve duties which warrant career reserved. (See p. 11.)

OPM will need to be aware of agency practices in making noncareer and limited appointments. These appointments can be up to 15 percent of SES positions, but merit staffing procedures are not required for these appointments and much of the responsibility for them rests with the agencies. (See p. 18.)

Executives who would have otherwise received an SES noncareer appointment, but who had reinstatement eligibility to a position in the competitive service, were given the opportunity by the Reform Act to request reinstatement to career status. OPM issued a regulation to also allow conversion to

career status of individuals serving in Schedule C, noncareer executive assignment, noncareer Executive Schedule, and limited executive assignment positions based on prior career-type experience in the excepted service. GAO believes OPM needs legislative authority for these latter conversions. GAO also believes OPM should verify whether executives who converted to career status were incumbents of positions when these positions were designated as SES positions. Incumbency was required by the Reform Act and OPM regulations. (See p. 21.)

About 1,000 special agency authorizations are excluded from SES and a 10,777 "pool" of executive positions established by the Reform Act. Most of the authorizations are not being used. The "repealer provision" of the Reform Act should be amended to remove special agency authorizations not being used. (See p. 27.)

The pay-setting process, as envisioned by the Reform Act, and the introduction of performance awards (bonuses) are among the most innovative and appealing features of SES. However, salaries of SES members are presently compressed by the linkage of congressional and Executive Schedule salaries and the limitations on the annual pay adjustments for executives which have been imposed by law. About 90 percent of SES executives receive the same pay.

The Congress was considering placing still further restrictions on the aggregate amount of pay, bonuses, and Meritorious Executive and Distinguished Executive ranks allowed SES members. If annual adjustments are continually denied or limited, and if lump-sum payments for bonuses and ranks are restricted, the morale of SES members will be seriously affected. In addition, some of

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the success agencies have had in encouraging Federal executives to join SES will almost certainly be nullified.

Moreover, incentives for greater excellence which the Congress was striving to stimulate with the Reform Act's pay for performance provisions can be stifled. The restriction or withdrawal of performance awards and ranks could be construed by many executives who have elected to join SES as a breach of faith and would remove a major inducement to join SES, thereby greatly weakening the SES system. (See p. 30.)

Potential for inequities exists in awarding bonuses. The Reform Act stipulates that performance awards may be granted to 50 percent of the total SES positions in an agency. Only career executives are eligible for bonuses. Therefore, career executives in agencies with a high percentage of noncareer executives have a significantly greater opportunity to receive bonuses. Some agencies will be able to pay most or all of their career executives bonuses, while others must limit bonuses to about 50 percent of their career executives. The problem could be solved by amending the Reform Act to specify a maximum percentage of career appointees who can receive bonuses in any agency during any one fiscal year. (See p. 34.)

OPM's responsiveness to agencies' needs for guidance and its ability to provide oversight to insure that agencies effectively implement and operate SES will enhance the potential for success. OPM has provided technical assistance, regulations and guidance, evaluation, and compliance assistance. But opportunities exist for strengthened guidance and compliance efforts.

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--Most of the eight agencies GAO visited had some concerns with aspects of OPM's written guidance, especially its timeliness. But, most of the concerns agencies expressed at that time have been corrected by subsequent regulations and guidance. OPM now needs to obtain feedback from agencies to insure that agencies have enough information to fully implement and operate SES. (See p. 40.)

--OPM compliance reviews focus on verifying agency actions to implement and operate SES. Although the compliance program has expanded since it began during conversion, GAO believes that more frequent onsite reviews of agencies are needed. OPM personnel who do most of the onsite compliance work also provide day-to-day technical assistance to agencies. Future compliance planning should consider separating these duties. (See p. 42.)

--Two agencies initially appointed officials of their new Offices of Inspector General to SES performance review boards. To help insure the independence of agencies' audit and investigative functions, agencies should not appoint executives of Inspector General and internal audit offices to these boards. (See p. 47.)

RECOMMENDATIONS TO OPM

The Director of OPM should:

--Develop criteria for agencies' use in requesting future allocations of SES positions and establish internal criteria and procedures to aid OPM personnel in achieving consistency in their reviews of these allocation requests. (See p. 11.)

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--Consider adding occupational disciplines associated with personnel, statistics, finance, and budget functions to its career-reserved criteria and be alert to adding other disciplines requiring impartiality or the public's confidence in Government. (See p. 18.)

--Review general positions of SES to insure proper designation. (See p. 18.)

--Propose a corrective amendment to the Reform Act to include substantial career-oriented service in career-type positions as a basis for career SES appointment under the career conversion provisions for Federal employees serving in non-career, Schedule C, limited executive assignments, and similar appointments. (See p. 26.)

--Verify the incumbency requirement for executives who (1) converted from noncareer to career status and (2) make similar future conversions. (See p. 26.)

--Propose an amendment to clarify the "repealer provision" of the Reform Act regarding special agency authorizations. (See p. 29.)

--Propose legislative, or, if appropriate, regulatory changes to achieve consistency among agencies as to the maximum percentage of career executives eligible for bonuses in any one year. (See p. 39.)

--Require an increase in number and frequency of OPM onsite compliance reviews of agencies' SES activities. (See p. 46.)

--Evaluate the possibility of separating organizational responsibility for compliance reviews from technical assistance and other similar duties. (See p. 46.)

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--Provide guidance to agencies directing that they avoid appointing officials responsible for auditing and investigating agency personnel activities to performance review boards and executive resources boards. (See p. 49.)

RECOMMENDATIONS TO THE CONGRESS

Salary increases for Federal executives have been limited or denied despite statutes which allow annual adjustments. Also, the Congress has been considering measures which would restrict the amount of bonuses and ranks that could be paid SES executives. SES success would be enhanced by the successful functioning of the present system. Any productivity gains that can be accomplished through the SES compensation plan would return many times its cost. GAO recommends that the Congress

--allow the annual adjustments for executives under Public Law 94-82 to take effect (see p. 33),

--discontinue the practice of linking congressional and Executive Level II salaries (see p. 33), and

--allow the bonus and rank provisions of the Reform Act to take effect (see p. 39).

AGENCY COMMENTS AND OUR EVALUATION

In general, OPM agrees with matters discussed in this report. The Director of OPM expressed his concern at the recent congressional initiatives to limit aggregate SES pay to $52,750. He believes that such limitations, which restrict the ability to reward outstanding executives, will stifle the SES program and adversely affect executive recruitment and retention. (See app. III.)

GAO concurs with the Director's concerns and believes that congressional action limiting SES pay and bonuses could undermine the chances for success of SES which is vital to achieving the goals of civil service reform.

RECENT CONGRESSIONAL ACTION

On July 2, 1980, the Congress included language in the Fiscal Year 1980 Supplemental Appropriations Act which allows aggregate pay for SES executives up to the level authorized by the Reform Act, but limits bonus payments to 25 percent, rather than 50 percent of SES positions. In addition, GAO was directed to do a thorough study, in cooperation with OPM, of bonus system payments and to report the findings to the authorizing and appropriation committees.

This action alleviates to a large degree the situation for fiscal year 1980, but a House proposal still retains language which would prohibit the October 1980 adjustment and limit aggregate SES pay for fiscal year 1981 to $52,750. Thus, GAO's concerns about pay-setting practices and restrictions on bonus and rank payments remain.

Continuing dialogue which focuses on compressing executive pay and limiting bonus and rank awards serves to create turbulence and declining morale among senior executives. GAO believes that the innovative features of the compensation plan for SES members, as set forth in the Reform Act, should not be abandoned before they have been given a chance to work. As directed, GAO will be especially alert for abuses of bonus payments in reviews of performance appraisal systems required by the Civil Service Reform Act of 1978.

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

FEDERAL EXECUTIVE PAY COMPRESSION WORSENS

D I G E S T

During the last several years, Federal executives' pay problems have steadily worsened. Adjustments that were supposed to be provided to Federal executives under Public Law 94-82 and Public Law 90-206 have continuously been limited, reduced, or completely denied. The Senior Executive Service (SES)--hardly a year old--was to provide monetary rewards on the basis of many top Federal executives' performance. SES could be adversely affected if the Congress acts to limit these individuals' total remuneration. The number of SES positions eligible for performance awards has already been limited.

As a result of actions to limit Federal executive pay:

--Executive Schedule salaries have increased an average of only 35 percent since October 1969 as compared with increases of 84 percent in the General Schedule and 125 percent for private sector executives. (See p. 5.)

--The purchasing power of Executive Level I salaries has decreased 43 percent since October 1969, and salaries at the Level V ceiling have decreased about 31 percent. (See p. 7.)

--Pay compression extends further into the General Schedule and causes about 90 percent of SES executives to receive the same pay despite different levels of responsibility. (See pp. 7, 8, and 14.)

--Salary differentials are inconsistent for different levels of Federal executives. (See p. 8.)

If Federal executives are denied the projected 6.2-percent increase to be paid General Schedule employees in October 1980, as

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proposed by the President, then pay compression will cover all GS-16s, almost all SES members, and the top five steps of GS-15. Continuing the pay ceiling in October 1981 would cause the compression to reach the top steps of GS-14.

Providing a 6.2-percent increase for top executives in October 1980 would amount to about a $68-million increase, or about one hundredth of a percent, in the estimated fiscal year 1981 budget.

PAY COMPRESSION PROBLEMS CONTINUE

Pay compression continues to be a major cause of recruiting and retention problems for Federal agencies. These problems are compounded by the attractive cost-of-living adjustments to retirement annuities which increase the incentive to retire. (See pp. 10 to 12.)

Personnel officials at Federal agencies consider low Federal executive salaries and infrequent adjustments as major sources of difficulty in recruiting well-qualified individuals from outside the Government.

Many Federal executives are reluctant to accept promotions because the increased responsibilities of the position are not recognized with higher pay. Also, such promotions often involve moves to high-cost areas of the country. Pay compression results in more payless promotions because executives at several different levels of authority make the same salary.

The Director of the Office of Personnel Management acknowledged that pay compression "leaves the Federal Government, as an employer, in the position of not being able to attract high quality executives from the private sector, nor to offer the most able mid-management Federal employees any reward for accepting increased responsibility." (See app. II.)

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Many Federal executives with extensive experience are choosing to retire rather than continue working at frozen pay levels. In fact, the rate of executives retiring in the first 3 months of 1980 was much greater than the rate of retirements in the last 6 months of 1979. The Department of Health and Human Services alone lost 16 top executives in the first quarter of 1980 with combined Federal experience of over 500 years. (See pp. 11 and 12.)

SES COULD BE ADVERSELY AFFECTED

SES salaries' link to the Executive and General Schedules has resulted in about 90 percent of SES members receiving the same pay.

The compression of SES salaries undermines two important purposes of SES and may threaten its success. (See pp. 14 and 15.)

The Civil Service Reform Act of 1978 states that SES was created to

--provide for a compensation system designed to attract and retain highly competent senior executives and

--insure that compensation, retention, and tenure are contingent on executive success which is measured on the basis of individual and organization performance.

Failure of the Congress to insure that these objectives are implemented may be seen by civil servants as a lack of commitment to civil service reform. This perception could be critical when agencies begin implementing other aspects of reform, such as merit pay, which may affect as many as 125,000 GS-13s through GS-15s, and performance appraisal, which affects all Federal employees.

Recent proposals in the Congress to limit total remuneration, including performance awards, and actions to further limit the number of SES positions eligible for awards could be disastrous for SES. (See pp. 15 and 16.)

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Prohibiting or limiting performance awards and ranks:

--Could nullify the success agencies have had in encouraging Federal executives to join SES.

--Is seriously affecting the morale of Federal executives.

--May stifle the incentive for excellence and superior performance.

--Can damage the credibility of the entire civil service reform legislation.

More importantly, many executives who have elected to join SES interpret the performance award limitation as a breach of faith. Responses to a questionnaire sent to senior executives indicate a large number are very concerned about proposals to limit performance awards and to continue the executive pay freeze.

CONCLUSIONS

Changes in pay setting for Federal executives are critically needed if (1) the problems executives face due to diminishing real salaries are to be alleviated, (2) pay distinctions are to accurately reflect differences between levels of responsibility and performance, and (3) agencies are to avoid serious recruitment and retention problems.

Allowing annual adjustments to take effect would help alleviate compression, improve pay distinctions, and reduce agencies' recruitment and retention problems. SES's success also depends on the granting of annual adjustments to the Executive Schedule and granting performance awards within already established guidelines. Restricting these essential incentives could exacerbate

current problems, foster Government inefficiency, and increase Government expenditures to a level that would far exceed the cost of regular pay raises and performance bonuses.

The congressional salaries' link to the Executive Schedule has adversely affected top executives at times when the Congress has, for a variety of reasons, held its own pay down. This has also helped to hold down the Level V ceiling on GS pay, compromising legislative mandates for pay comparability and pay distinctions to match work and performance distinctions.

The congressional salaries' link to Executive Level II salaries has no legal basis or foundation. Since there seem to be few parallels between the career patterns, career expectations, and responsibilities of Members of Congress and Level II Executives, GAO sees no compelling need to link their salaries.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress improve the pay-setting process for Federal executives by:

--Allowing the annual adjustments for executives under Public Law 94-82 to take effect.

--Discontinuing the practice of linking congressional and Executive Level II salaries.

--Allowing SES performance and rank awards to take effect.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-196181

The Honorable Jamie L. Whitten
Chairman, Committee on Appropriations
House of Representatives

The Honorable James M. Hanley
Chairman, Committee on Post Office
and Civil Service
House of Representatives

The Honorable Warren G. Magnuson
Chairman, Committee on Appropriations
United States Senate

The Honorable Abraham A. Ribicoff
Chairman, Committee on Governmental
Affairs
United States Senate

The Honorable Jim Sasser
Chairman, Subcommittee on Legislative
Branch
Committee on Appropriations
United States Senate

Note: From our report, "First Look At Senior Executive Service Performance Awards," FPCD-80-74, August 15, 1980

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The Honorable Thomas F. Eagleton
Chairman, Subcommittee on Agriculture
and Related Agencies
Committee on Appropriations
United States Senate

The Senior Executive Service (SES), established by title IV of the Civil Service Reform Act of 1978 (Public Law 95-454), went into effect on July 13, 1979, and with it a system of performance awards (bonuses and ranks) to encourage excellence in performance among career appointees. SES serves as a significant attempt to inspire and motivate Federal executives to better performance and higher productivity. The awarding of bonuses and Meritorious and Distinguished Executive ranks with large cash stipends, two of the most innovative and important features of SES, are in a very early stage of implementation. On the other hand, as many executives have already observed, the performance appraisal process leading to these awards is already proving to be a major management tool that helps agencies to more sharply focus resources on accomplishing their overall missions and specific goals.

The first bonuses under this system were paid by the Small Business Administration (SBA) in April 1980 and to the National Aeronautics and Space Administration (NASA) and the Merit Systems Protection Board (MSPB) in May 1980. Concerned about the number and amounts paid by the first two agencies and about potential abuse of the system, the House of Representatives initiated action in June 1980 to limit payment of SES performance awards through the appropriations process. Disagreement between the Senate and House on limiting SES bonuses resulted in a compromise agreement by the conferees on the Fiscal Year 1980 Supplemental Appropriations Act that

> "no more than 25 percent of the number of Senior Executive Service positions, or positions under similar personnel systems, in any agency may receive performance awards."

The conferees also directed our Office, in cooperation with the Office of Personnel Management (OPM), to thoroughly study SES bonus system payments to identify potential abuses of the system.

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Because the actions of the Congress and the directive to our Office resulted primarily from the payment of bonuses by NASA and SBA, we reviewed the SES bonuses paid in these two agencies. We also reviewed the bonuses paid by MSPB. The National Capital Planning Commission (NCPC) awarded bonus payments but withdrew them at OPM's request. We also reviewed the circumstances in this case. According to OPM officials, these four agencies are the only ones which paid, or attempted to pay, bonuses as of July 7, 1980. On this date, OPM requested agencies to suspend further bonus payments pending issuance of additional guidance. OPM issued this guidance on July 21, 1980.

This letter summarizes the results of our study of SES bonus system payments. We are recommending that the Congress allow the SES bonus and rank provisions to take effect except that the percent limit be based on eligible career executives (see p. 10). Recommendations are also made to the Director, OPM (see p. 11). (See appendix for SES compensation matters, the processes used by the above agencies in awarding bonuses, and our comments on the processes.)

BONUS PAYMENTS AT NASA, SBA, MSPB, AND NCPC

We did not detect any abuse and believe that the responsible officials at these four agencies have acted in good faith and generally with reasonable logic in the administration of the SES performance appraisal and award system. Each of the processes and related awards were within the parameters of the Reform Act and OPM guidance in effect when the awards were made.

Research of private industry experience, however, has shown that an innovative concept that demands such an enormous and abrupt change in organizational behavior, as does SES, cannot be expected to operate optimally at its inception. Several years of experience with the system may be necessary to discover the changes that will be required to make it run well.

Although the agencies operated within guidelines, we did observe a few initial policies or procedures that need improvement. These matters are agency specific and should not be generalized or reflect negatively on the credibility of the system. These matters are

--the composition of NASA's Performance Review Board (PRB) and Senior Executive Committee in reviewing the performance appraisal and bonus recommendations of top agency officials and PRB members,

--the intention of SBA to pay a second round of bonuses again in the fall of 1980 for the remainder of fiscal year 1980 performance, and

--the senior executives at MSPB not establishing performance objectives until nearly three-quarters of the way through the performance period for which they were awarded bonuses.

NASA

NASA awarded bonuses within the parameters of the Reform Act and OPM guidance, which permitted bonus payments up to 50 percent of SES positions. Bonuses were paid to 240, or 56 percent, of the 427 incumbent career executives eligible to receive bonuses in May 1980; this amounted to 46 percent of 520 positions OPM allotted to NASA.

However, because (1) all of NASA's Executive Position Managers (EPMs)--major component organization directors--and PRB members received either bonuses or meritorious or distinguished rank nominations (rank nominees were ineligible for bonuses at NASA), (2) there was no representation of lower level SES members or non-NASA representatives on PRB, (3) the Senior Executive Committee, serving as the PRB for EPM bonus and performance rating recommendations, is chaired by the Deputy Administrator, who also rates the EPMs and Senior Executive Committee members, and (4) the percentage of executives receiving bonuses or rank nominations, as well as the greater dollar amounts of bonuses, were skewed toward the top of NASA's organizational hierarchy (see app., p. 15), NASA's performance award decisions lack the appearance of objectivity.

According to agency officials, EPMs gained their key positions by virtue of demonstrated performance and accomplishments; also PRB members were chosen for their long-standing reputation for integrity and competence. For the most part, awards were made to the better rated executives (see app., p. 14). Also, through a special commendation, OPM singled out NASA for its leadership in implementing the SES provisions of Civil Service Reform.

The skewing apparently occurred because of NASA's philosophy about the factors to be considered in evaluating individual performance. Although NASA considers an executive's performance rating the primary basis for an award, it believes the rating cannot be the sole basis for determining the value of an individual's performance. It believes consideration must also be given to the individual's job importance and complexity, the degree of risk and responsibility,

and the individual's specific or overall contributions to the agency. These factors are not necessarily reflected in the rating and are generally more prevalent at the highest positions in the organization. It believes that fully successful performance in more challenging and higher level positions may be more valuable to the organization than fully successful or better performance in less challenging or lower level positions, and thus more deserving of an award and in a greater amount. (See app., p. 10.)

SBA

SBA complied with the parameters of the Reform Act and OPM guidance, which permitted bonus payments up to 50 percent of SES positions. Bonuses were paid on April 16, 1980, to 15, or 48 percent, of the 31 incumbent career executives eligible to receive them. This amounted to 28 percent of 53 positions OPM allotted to SBA.

Although SBA's PRB recommended making bonus payments to 38 percent of its SES positions, the Administrator, after conferring with OPM officials, elected to reduce the number of awards to 28 percent and base the awards on a half year's salary. Also, SBA paid bonuses on a 6-month cycle and plans to again pay bonuses for second half fiscal year 1980 performance in the fall of 1980 with fiscal year 1981 money. It plans to then shift to an annual bonus cycle, paying bonuses in each October. This is not consistent with other agencies' practices and raises questions of equity to other SES members because, in effect, SBA would be paying a second round of bonuses for fiscal year 1980 performance. Most other Federal agencies will pay only one round of bonuses for fiscal year 1980 performance in the fall or early winter of 1980.

SBA will need to be very careful about the manner in which it pays bonuses in October to avoid perceived misuse of the 25-percent limit set by the Fiscal Year 1980 Supplemental Appropriations Act. This might lead SBA to consider making its bonus award decisions on the basis of previous recipients rather than to the most deserving performers. This would violate the intent of SES performance awards. Moreover, SBA has already exceeded the 20 percent limit other agencies will be expected to pay, based on July 21, 1980, OPM guidelines.

We also noted that, as with NASA, all eligible members of SBA's PRB were awarded bonuses and some were also nominated for ranks. Representation from outside SBA would have enhanced the objectivity of SBA's awards. (See app., p. 18.)

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MSPB

MSPB awarded bonuses within the parameters of the Reform Act and OPM guidance, which permitted bonus payments up to 50 percent of SES positions. MSPB paid bonuses on May 8, 1980, to four, or 67 percent, of the six incumbent executives eligible to receive bonuses. This amounted to 50 percent of eight positions OPM had allotted.

Although the performance appraisal period for which bonuses were awarded was from March 1979 to March 1980, performance objectives for the executives were not formulated until November and December of 1979. Thus performance objectives were written nearly three-fourths of the way through the performance period. MSPB felt this was justified because it wished to recognize the exceptional efforts made by its executives in establishing the agency.

Nevertheless, we believe this procedure was improper because executives received awards for objectives written for performance that had already been substantially accomplished. Moreover, the objectives were for a period of time before SES went into effect. This is a one-time problem that has been resolved at MSPB by its requiring a review of performance objectives by PRB at the beginning of the appraisal period. (See app., p. 27.)

NCPC

NCPC's PRB reviewed the performance of its SES members on July 2, 1980, and recommended to the NCPC Chairman that two of its five career senior executives receive bonuses. However, according to an NCPC official, just before issuing the checks to the two individuals, the Chairman, through a letter from OPM, became aware of the congressional action to limit bonus payments to 25 percent of positions allotted. Consequently, the Chairman suspended payment of the bonus awards before they were issued and suspended them until further OPM guidance would become available. (See app., p. 33.)

REVISED OPM GUIDANCE

In response to the Fiscal Year 1980 Supplemental Appropriations Act which restricted bonus payments, OPM issued revised guidance on July 21, 1980, amplifying its earlier guidance to agencies in awarding bonuses. This guidance, of course, limits payments of bonuses to a maximum of 25 percent

of SES positions. It stated that agencies should generally limit bonuses to 20 percent of the eligible career employees and suggests that one or more members from outside the agency be included on PRBs. It also requires that agencies publish a schedule for awarding bonuses at least 14 days prior to the date awards will be paid.

EMERGING ISSUES THAT NEED TO BE RESOLVED

Although only 3 of the more than 70 agencies with SES executives have awarded bonuses, several interrelated issues affecting the viability of SES have already emerged and need to be recognized and resolved by the Congress and the administration. These issues are:

--Whether the pay compression situation makes it more difficult to equitably administer bonuses.

--Whether restrictions placed on the awarding of SES bonuses will diminish executive incentives.

--Whether bonuses will best serve as motivators by being available and paid to a large number of deserving senior executives, or only to an elite, relatively small percentage of outstanding executives.

--Whether factors beyond the rating instrument should be considered in bonus decisions.

These issues have emerged and become apparent not only in our review of bonuses paid to date but also in a number of other reviews we have underway. We believe that these issues must be resolved, or they may undermine the ability of SES to achieve its intended purposes. Some are of such impact that they have already had a serious effect on the credibility of the SES system, according to many senior executives, and have diminished many executives' willingness to view the system seriously and without cynicism. Not only have officials at several agencies expressed this viewpoint but also a large number of senior executives have expressed it in comments made in response to a randomly distributed attitude questionnaire on performance appraisal processes which we sent out in June 1980.

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We are assessing these issues and have reported some of our concerns in previous reports. 1/ In these reports we highlighted problems that have resulted from actions to limit or deny annual pay adjustments for these executives. The reports also discuss the potential effects of prohibiting or limiting SES performance awards and ranks. We stated that SES's success depends on the granting of annual adjustments to these executives and also on the granting of performance awards within established guidelines. Without these incentives the success of SES could be undermined and the objectives of greater excellence and improved program management envisioned by the Reform Act could be seriously impaired.

Continuing executive pay compression and efforts to limit bonus and rank awards creates turbulence and declining morale among senior executives. We believe that the innovative features of SES should not be curtailed or abandoned before they have been given a chance to work.

It is these executives who are responsible for administering a $600 billion budget and for managing the programs authorized by the Congress for the public. The potential returns we can receive from their improved performances are overwhelming. We recommended in these reports that the Congress improve the pay-setting process for Federal executives by

--allowing the annual adjustments for executives under Public Law 94-82 to take effect,

--discontinuing the practice of linking congressional and Executive Level II salaries, and

--allowing SES and performance and rank awards to take effect without further restrictions on payments.

We are currently working to identify SES implementation problems, as is OPM and several independent oversight groups. We expect to publish a report later this year on the processes that are being implemented to appraise the performance of senior executives, and we plan to examine every aspect of performance appraisal and its uses, including performance awards,

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1/"First Step Completed in Conversion to Senior Executive Service" (FPCD 80-54, July 11, 1980).

"Federal Executive Pay Compression Worsens" (FPCD-80-72, July 31, 1980).

throughout the next 4 years. We, as well as OPM, will be looking closely for abuses such as politicization and rotation of awards.

To facilitate the review of agency award practices, OPM is now establishing a computerized data collection system that will produce semiannual reports on bonuses, ranks, and incentive awards by agency, sex, minority group, location, rating, and pay plan. This system is expected to be operational early in fiscal year 1981. OPM has also established a compliance program of onsite visits to agencies to insure SES activities are performed in accordance with law and regulations.

CONCLUSIONS

The SES performance awards provided to executives at NASA, SBA, and MSPB were within the requirements of the Civil Service Reform Act, as well as OPM guidance. The three agencies which paid bonuses generally appear to be making sincere efforts to establish a workable SES performance appraisal and awards system, and we did not find evidence of abuse or intentional mismanagement of the system. Generally the better rated executives received the bonuses or were nominated for rank awards.

Each of the agencies experienced some procedural difficulties in administering these awards, which could be expected in the initial implementation. These procedures were agency specific and should not be perceived as reason to condemn the system. The following matters requiring improvement occurred at the three agencies paying bonuses.

--NASA's "special PRB" (Senior Executive Committee) for EPMs does not have the appearance of objectivity and its regular PRB has no representation from lower SES levels;

--SBA intends to pay a second round of bonuses for fiscal year 1980 performances; and

--MSPB's executives were paid bonuses based on performance criteria established near the end of the performance rating period.

We are concerned that certain interrelated issues which have emerged may undermine the viability of the SES system and performance awards concept. The questions they raise are:

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--Will it be more difficult to equitably administer SES performance awards with the existing pay compression?

--Will restrictions on SES bonuses diminish executive incentive?

--Should bonuses be paid to a small percentage or a large percentage of career SES members?

--Should additional criteria beyond the rating instrument be used to determine which executives should receive the allowable bonuses?

OPM's guidance, issued July 21, 1980, is a responsive reaction to the desires of the Congress. OPM will need to undertake a strong monitoring and compliance effort to help insure the credibility of agency bonus programs and that these programs are in compliance with law, regulation, and guidance. This effort is also needed to allow OPM to be more responsive to the concerns of the Congress and other parties.

Monitoring by OPM will be enhanced by its (1) computerized data collection system being developed to capture agency performance award information and (2) guidance requiring that agencies publish a schedule for awarding bonuses at least 14 days prior to the date on which awards will be paid. OPM will also need to evaluate the adequacy of the bonus system as it evolves in the Federal sector and make recommendations for legislative change and adjustments in regulations and agency guidance as necessary.

We regret the Congress felt compelled to place further restrictions on bonuses but believe the decision to permit the full range of bonus payments (20 percent of base pay) a wise one, thus allowing the system to develop and OPM and agencies to explore and recommend better methods.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress allow the SES bonus and rank provisions to take effect with one exception. The one exception is that, for equity purposes among agencies, the Congress should change the basis for the percent limit on number of bonuses paid from percent of positions to percent of eligible career executives.

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RECOMMENDATIONS TO THE DIRECTOR, OPM

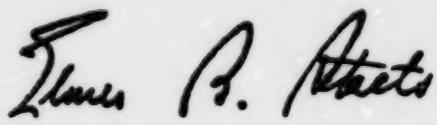
To add credibility and additional objectivity to bonus decisions, we recommend that the Director, OPM, (1) direct Federal agencies include lower level SES executives, as well as impartial outside members, to participate in PRB decisions and also include outside members as participants on special PRBs (such as NASA's Senior Executive Committee) and (2) work with SBA to determine an equitable plan for paying bonuses for the remaining fiscal year 1980 performance.

We recommend also that OPM take a strong role in monitoring agency bonus programs and review agency bonus award plans and policies prior to awards for the first few years, or until such time OPM is assured that agencies are routinely following prudent procedures that are within the intent of the Reform Act. After it is assured agencies are using prudent procedures, OPM should continue to monitor awards on a postaward basis through its data collection system and compliance visits to agencies.

We recommend further that the Director, with the help of agencies, study the issues that may affect SES success, such as those identified in this letter; evaluate the adequacy of SES bonus systems; and, as necessary, make recommendations for legislative change. These recommendations should include methods, amounts, and numbers of performance awards that will have the maximum effect in carrying out the intent of the Reform Act.

AGENCY COMMENTS

OPM and the respective agencies were provided a draft of this report. We discussed the draft with the responsible officials in these agencies who generally agreed with our findings and recommendations.



Comptroller General
of the United States

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

September 19, 1980

B-196181

The Honorable A. Vernon Weaver, Jr.
Administrator, Small Business
Administration

Dear Mr. Weaver:

Subject: First Look at Senior Executive Service Performance Awards/SBA (FPCD-80-86)

During July 1980, members of my staff reviewed Senior Executive Service (SES) bonus payments at the Small Business Administration (SBA) and two other agencies as part of a study directed by the Congress. Results of this study are included in our report entitled "First Look at Senior Executive Service Performance Awards," FPCD-80-74, August 15, 1980 (copy enclosed).

We concluded that the performance awards were within the requirements of the Civil Service Reform Act, as well as Office of Personnel Management (OPM) guidance. But we reported that each of the agencies experienced some procedural difficulties in administering these awards. We did not make specific recommendations to the three agencies in our report. In lieu of this, we are writing this letter to share a few of our observations about SBA's bonus system and to outline some recommendations you may wish to consider.

SECOND BONUS CYCLE FOR
FISCAL YEAR 1980 PERFORMANCE

SBA paid bonuses for performance in the first 6 months of fiscal year 1980. At the time of our review, it planned to again pay bonuses for the second half of fiscal year 1980 performance in the fall of 1980 with fiscal year 1981 money. Although this plan is within the legal limits of the Reform Act, it allows SBA to pay bonuses to a higher percentage

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of its executives than other agencies for the same fiscal year 1980 performance period. Most other Federal agencies will pay only one round of bonuses for fiscal year 1980 performance and will have to restrict them to no more than 25 percent of SES positions.

SBA will need to be careful about the manner in which it pays bonuses in the fall to avoid perceived misuse of the 25-percent limit set by the Fiscal Year 1980 Supplemental Appropriations Act. In this regard, we recommend that SBA work closely with OPM to determine an equitable plan for paying bonuses for the remaining fiscal year 1980 performance.

COMPOSITION OF THE PERFORMANCE REVIEW BOARD (PRB)

All eligible members of SBA's PRB were awarded bonuses and some were also nominated for Distinguished Executive and Meritorious Executive ranks. While we did not detect any evidence of abuse of the SES performance awards system, we believe that SBA could add credibility and objectivity to its award decisions if the PRB included an impartial member or members from outside the agency to participate in PRB decisions.

OPM guidance on bonuses issued on July 21, 1980, suggests agencies consider including one or more members from another Federal agency on their PRBs to further add to the objectivity of the review process. In our report on SES bonuses, we recommended that OPM direct Federal agencies to include impartial outside members to participate in PRB decisions. We recommend that SBA add this representation to its PRB.

PRB FUNCTIONS

SBA's performance appraisal process does not include a requirement for a central review of executives' performance standards early in the performance cycle. Some agencies have adopted this procedure. This review, which could be made by the PRB, would better insure that executives' performance standards and critical elements are clear and consistent with SBA's organization goals and cover all major responsibilities of the executives. Also, such reviews would enhance agencywide consistency and fairness in performance plans, and improve the basis for comparing performances and making bonus decisions.

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We were advised that SBA's Deputy Administrator examined performance standards this year but that there was no requirement for this review. We believe that this was a very desirable step and recommend that a central review of executives' performance plans at the beginning of the rating period be made a requirement of SBA's performance appraisal process.

Also, SBA officials told us that PRB members participated in appraisal discussions and award recommendations for executives they rated. OPM guidance to agencies on PRBs (Bulletin 920-9, March 15, 1979) suggests that the supervisory official who made the initial appraisal of an executive should not be a member of the PRB considering the appraisal of that executive. We recommend that SBA consider requiring supervisors on its PRB be excused from PRB proceedings when bonus and rank recommendations of subordinates are being discussed.

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As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriationr with the agency's first request for appropriations made more than 60 days after the date of the report.

I want to take this opportunity to express my appreciation for the cooperation given us by your staff in this review. Although the subject was highly controversial, they were very candid in their discussions with us and promptly provided us with information we requested.

Sincerely yours,

H. L. Krieger
Director

Enclosure

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

September 19, 1980

B-196181

The Honorable Ruth T. Prokop
Chair, Merit Systems Protection
Board

Dear Ms. Prokop:

Subject: First Look at Senior Executive Service
Performance Awards/MSPB (FPCD-80-87)

During July 1980, members of my staff reviewed Senior Executive Service (SES) bonus payments at the Merit Systems Protection Board (MSPB) and two other agencies as part of a study directed by the Congress. Results of this study are included in our report entitled "First Look at Senior Executive Service Performance Awards," FPCD-80-74, August 15, 1980 (copy enclosed).

We concluded that the performance awards were within the requirements of the Civil Service Reform Act, as well as Office of Personnel Management (OPM) guidance. But we reported that each of the agencies experienced some procedural difficulties in administering these awards.

We did not make specific recommendations to the three agencies in our report. However, we noted that performance objectives for MSPB's executives were not formulated until November and December of 1979 even though the performance appraisal period for which bonuses were awarded was from March 1979 to March 1980. Thus, performance objectives were written nearly three-fourths of the way through the performance period. The Performance Review Board's action to review performance objectives at the beginning of the appraisal period will overcome this start-up difficulty.

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I want to take this opportunity to express my appreciation for the cooperation given us by your staff in this review. Although the subject was highly controversial, they were very candid in their discussions with us and promptly provided us with information we requested.

Sincerely yours,

H. L. Krieger
Director

Enclosure

APPENDIX VI

COMPTROLLER GENERAL'S REPORT TO THE DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

FEDERAL MERIT PAY: IMPORTANT CONCERNS NEED ATTENTION

D I G E S T

Many Federal agencies may not be adequately prepared to implement the merit pay program by the October 1981 deadline set out in the Civil Service Reform Act of 1978. Agencies are working hard to meet the deadline, but most Federal officials have not had any previous merit pay experience.

In addition, agencies have not developed methods to measure how much it is costing to implement merit pay or whether merit pay will improve agency performance. They also could use additional guidance on whom to include in the merit pay program.

GAO is concerned that if these problems are not addressed, the Federal merit pay program will be no more successful than previous attempts to base pay on performance.

MORE PREPARATION NEEDED BEFORE MERIT PAY IMPLEMENTATION

A key feature of merit pay is the objective-based employee performance appraisals with which few agencies or officials are experienced. The non-Federal organizations GAO visited which have merit pay systems reported that experience with this type of performance appraisal is very important to program success. They either had experience operating objective-based performance appraisal systems before adopting merit pay or spent several years pretesting their appraisal systems before actually linking pay to performance ratings. Pretesting gives management time to debug the system and a chance to learn to operate it before employees' pay becomes involved.

Many agencies do not plan to pretest their systems. Those that are pretesting anticipate spending only a few months doing so. Also, many agencies may not have time to conduct thorough merit pay performance training or demonstrate to employees that pay for performance is in their best interests. (See pp. 7 to 13.)

The Office of Personnel Management (OPM) agrees that some agencies may need additional time to develop their systems and is considering some agency requests for exceptions or delays. However, OPM does not require agencies to pretest their systems before putting them into operation--a process which would help alleviate problems of untested systems.

Pretesting would also help managers adjust to devoting more of their time to appraisal efforts than in the past. One study, for example, showed that some private sector managers spend from 10 to 25 percent of their time administering merit pay.

One reason that the Government has not been successful in attempting to base pay on performance was that too much managerial time was needed to document performance distinctions among employees. If Federal managers are uncommitted to the effort that will be needed to operate a merit pay system, they may still consider large investments of time to be a distraction from their other tasks rather than a process which, if used correctly, can benefit overall management planning and evaluation. (See pp. 5 to 7.)

IMPACT AND COST OF THE PROGRAM WILL NOT BE KNOWN

Many agencies have not developed merit pay objectives or evaluation strategies. Without these, agencies will find it difficult to measure the effect of merit pay on critical areas, such as productivity, motivation, morale, recruitment, retention, leadership, and performance. (See pp. 14 to 16.)

The Civil Service Reform Act requires that OPM report to the Congress the costs of implementing merit pay throughout the Federal Government. Agencies, however, have not kept track of these costs, and OPM will probably report only the actual merit increases paid out and any consultant costs. (See pp. 17 to 18.)

Additionally, more specific guidance is needed so agencies can determine whom to include in the

merit pay program. Problems have emerged regarding the inclusion of some "professional" positions in merit pay, and Federal employee associations are concerned that agencies may include in their merit pay systems more GS-13s through GS-15s than the law intends. (See p. 18 to 19.)

RECOMMENDATIONS

To minimize potential problems in the merit pay program, the Director, OPM should

--establish minimum pretest criteria which agencies must meet before making initial merit pay determinations (see p. 13),

--take a stronger role in encouraging agencies to develop additional training courses and other programs designed to increase managerial skills and gain employee acceptance of pay-for-performance systems (see p. 13),

--require agencies to define the objectives of their merit pay systems more specifically and develop evaluation strategies (see p. 20),

--require agencies to prepare more detailed information on merit pay costs (see p. 20), and

--define more clearly which employees are intended to be included in the merit pay program (see p. 20).

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

SERIOUS PROBLEMS NEED TO BE CORRECTED BEFORE FEDERAL MERIT PAY GOES INTO EFFECT

D I G E S T

At the request of the Chair, Subcommittee on Compensation and Employee Benefits, House Committee on Post Office and Civil Service, GAO reviewed Federal agencies' progress in implementing the performance appraisal and merit pay provisions of the Civil Service Reform Act of 1978. This report points out that problems with merit pay implementation could cause program failure unless immediate action is taken. These problems were surfaced earlier when GAO testified before the Subcommittee on July 21, 1981. As a result of the hearings, the Subcommittee wrote the President requesting that action be taken similar to the recommendations contained in this report.

Under the Reform Act, pay increases for management officials and supervisors in grades GS-13 through GS-15 are, as of October 1, 1981, to be based on their performance. The Office of Personnel Management (OPM) estimates that approximately 100 agencies will be required to implement merit pay systems. These systems will be used to compensate as many as 152,000 employees. As the October 1 deadline nears, GAO is concerned about agencies' readiness to make sound merit pay decisions.

Performance appraisal experts in private industry say good performance appraisal systems take 3 to 5 years to develop, with extensive pretesting and evaluation. Federal agencies were given only 2 years to develop their systems, and many will not have pretested or evaluated their systems by October 1. Officials at several agencies that have pretested believe more work is needed before sound pay decisions can be made.

With pay decisions affecting so many Federal managers, the Government has a responsibility to insure that sound, pretested merit pay systems are in place before pay decisions are made. GAO supports the merit pay concept but believes implementation problems could cause the system to lose credibility and the program to fail.

OPM NEEDS TO TAKE A MORE AGGRESSIVE LEADERSHIP ROLE

The Reform Act gave OPM the responsibility to implement the merit pay program. This responsibility covers a broad range of activities, from developing policy to insuring agency compliance with civil service rules and regulations. In fulfilling these duties, OPM has taken what it terms a decentralized and nonprescriptive approach to give agencies considerable flexibility in designing their own systems. However, OPM is not providing the leadership needed to insure quality merit pay programs.

OPM's nonprescriptive approach has resulted in guidelines to agencies that are not timely or definitive enough to insure that effective pay-for-performance systems will be developed.

For example:

--OPM's General Counsel issued an opinion in January 1981 concerning the definition of performance levels. OPM told agencies making merit payouts that they may choose to comply with this new instruction in 1981 or wait until fiscal year 1982 to comply; however, OPM also warned these agencies that, technically, their systems are not comforming with OPM guidelines, leaving agencies open to employee lawsuits. (See pp. 7 and 8.)

--Several officials in the agencies we visited that made payouts in 1980 stated that the merit pay coverage guidelines provided by OPM were general and allowed them considerable leeway in deciding whom to include in merit pay. Representatives in 10 of the 15 agencies GAO reviewed, which were preparing for 1981 payouts, believed OPM's guidelines were inadequate. As a result, some employees who are not actually management officials may be included in merit pay and some that are management officials may not be included. (See pp. 8 and 9.)

OPM's current priority is to insure that all agencies meet the October 1, 1981, deadline for merit pay determinations. Its emphasis has

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been on reviewing and approving agencies' performance appraisal and merit pay plans for compliance with the law, and not on assessing the quality of these systems or assuring that they operate properly. (See pp. 4 and 10.)

PROBLEMS WITH PERFORMANCE APPRAISALS THREATEN SUCCESS OF MERIT PAY

Sound performance appraisal systems are crucial to the successful implementation of the Federal merit pay program. In response to a Merit Systems Protection Board questionnaire, merit pay employees in the agencies that made payouts in October 1980 indicated that when performance appraisals were fair, merit pay distributions would be fair, and that good or improved performance would be encouraged as a result. Unfortunately, where performance appraisal problems exist and appraisals are not viewed as being fair, the opposite of this is probably true.

Eight agencies implemented merit pay programs in October 1980. After reviewing the performance appraisal and merit pay systems of 6 agencies and determining the status of implementation in 15 agencies preparing to pay out in 1981, GAO found several performance appraisal problems:

--Four of the six agencies did not completely and adequately pretest their appraisal systems before making merit pay determinations. Some agencies had problems which affected the integrity of their pay-for-performance programs. Eight of the 15 agencies that are preparing to pay out in 1981 will not have fully pretested their systems. (See pp. 13 and 14.)

--Each of the six agencies experienced difficulty with setting performance standards. Lack of employee participation and the use of overly quantitative standards (with limited emphasis on qualitative measures) were typical problems. (See pp. 15 and 16.)

--Management officials responsible for reviewing performance appraisals at two agencies used arbitrary and subjective criteria rather than preestablished performance standards to make

changes to appraisals. This has resulted in numerous employee grievances. (See pp. 16 and 17.)

--OPM has not set a required time limit for an adequate appraisal period. Several of the 15 agencies will have performance standards in place for appraisal periods of less than 1 year. Two agencies will have standards in place for less than 90 days. (See p. 16.)

MERIT PAY FORMULA INCREASES GOVERNMENT COST

OPM's method for computing agencies' merit pay funds will cause the Government to spend from $58 to $74 million more each year than it would have if employees had remained under the General Schedule pay system. At the three largest agencies implementing merit pay in October 1980, payroll costs for around 1,850 merit pay employees were approximately $1 million, or 1.2 percent, more than they would have been under the General Schedule. This increase represented 23 percent of the total merit pay funds expended.

Furthermore, OPM's merit pay computation formula permits funds that cannot be paid to employees at the $50,112.50 statutory pay ceiling to be paid to employees below the ceiling. The increase in payroll costs and the use of "capped money" for merit pay employees do not conform with the provisions of the Reform Act. GAO has issued a Decision of the Comptroller General addressing problems with the merit pay funding formula. (See pp. 20 to 23 and app. VI.)

RECOMMENDATIONS TO THE DIRECTOR, OPM

GAO recommends that the Director, OPM:

--Require agencies to pretest their entire pay-for-performance systems, from standard-setting to appraisal and merit payouts, before making actual payouts.

--Require all agencies to comply with OPM guidelines on defining levels of performance before making payouts.

--Petition the President to grant exclusions from the October 1981 merit pay deadline to those agencies that have not pretested their entire performance appraisal and merit pay systems and those agencies that do not comply with OPM guidelines.

--Certify, after reviewing an agency's pretest, that the agency does fairly and accurately link pay to performance.

--Require agencies to insure employee participation in developing performance standards that address the most important elements of the employee's job in both qualitative and quantitative terms.

--Insure that agencies use performance standards that have been agreed to by the supervisor and employee at the beginning of the appraisal period as the basis for performance evaluations as mandated by the Reform Act. Require those managers responsible for reviewing performance appraisals to also review and approve performance standards early in the appraisal period.

--Require agencies to have performance standards in place at least 120 days before making pay decisions based on those standards.

--More clearly define which employees are to be included in the merit pay program.

The Reform Act restricts the amount available for merit pay to the amount which would have been spent under the previous pay system. Therefore, we are urging that OPM:

--Revise its merit pay computation formula to insure that payroll costs under merit pay do not exceed what would have been paid had the General Schedule pay system remained in place for merit pay employees.

--Develop a 1981 merit pay computation formula for those agencies that have already made payouts to adjust for the additional funds used in 1980.

--Insure that merit pay funds attributable to employees at the $50,112.50 ceiling are not used to reward employees below the ceiling.

RECOMMENDATION TO THE PRESIDENT

GAO recommends that the President, based on OPM's petition, exclude from the October 1981 mandatory merit pay implementation date those agencies that have not pretested their entire performance appraisal and merit pay systems and those agencies whose systems do not comply with OPM's guidelines and General Counsel opinion. This will enable OPM to require agencies to pretest their entire pay-for-performance systems before making actual merit payouts and to give agencies time to make their performance appraisal systems comply with OPM guidelines and the General Counsel opinion.

RECOMMENDATION TO THE CONGRESS

If the October 1981 mandatory merit pay implementation deadline is not delayed, GAO recommends the Congress enact an appropriation restriction in a fiscal year 1982 appropriations act. This restriction would prohibit agencies from making merit payouts beginning in October 1981 if they have not pretested their entire performance appraisal and merit pay systems or complied with OPM guidelines.

The following or similar language should be incorporated in a fiscal year 1982 appropriations act:

"No part of any appropriation contained in this or any other Act, or the funds available for expenditures by any agency, shall be used to fund an agency's merit pay program unless that agency has pretested its entire performance appraisal and merit pay system and is in compliance with OPM's merit pay program guidelines."

AGENCY COMMENTS

At the direction of the Subcommittee, we did not obtain agency comments on this report.

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND COMPENSATION DIVISION

B-196181

The Honorable Donald J. Devine
Director, Office of Personnel
Management

Dear Dr. Devine:

The Senior Executive Service (SES) was designed to insure that the executive management of the United States is responsive to the needs, policies, and goals of the Nation and is of the highest quality. One of the most important features of the SES is its objectives-based, results-oriented performance appraisal requirement. The appraisal process is intended to evaluate the performance of senior executives and provide a basis for making many executive personnel decisions, including monetary performance awards, development, advancement, and dismissals.

In meeting our responsibility to review performance appraisal systems mandated by the Civil Service Reform Act (CSRA), we studied the progress and problems agencies are having in implementing SES performance appraisal systems and senior executives' perceptions toward those systems. While it is too early to judge the overall effectiveness of SES appraisal systems at this time, we wanted to identify existing or potential problems so agencies and the Office of Personnel Management (OPM) can take corrective action.

Our study found that several important implementation procedures--pretesting, training, and establishing monitoring and evaluation systems--were either not used or used only to a limited extent by agencies. In addition, while perceptions of SES members were generally positive, SES members did identify areas which need attention by agencies and OPM. As a result of our study, we believe agencies need to implement formal evaluation systems to (1) monitor and assess the effectiveness of their SES performance appraisal processes and

Note: From our report, "Evaluation Called For To Monitor And Assess Executive Appraisal Systems," FPCD-81-55, August 3, 1981.

(2) pin-point problems within their systems so that timely, corrective actions can be taken. We are making formal recommendations to the Director, OPM, to require that agencies develop and implement evaluation systems and that OPM provide guidance and followup to insure compliance. (See p. 13.)

OBJECTIVES, SCOPE, AND METHODOLOGY

To obtain a Government-wide profile of SES performance appraisal system implementation, we

--reviewed OPM guidelines, assistance to agencies, and evaluation efforts through interviews with appropriate OPM officials and reviewed appropriate records, publications, and written evaluation plans;

--issued a questionnaire to 53 agencies and agency subunits (see app. II, p. 21 for list of agencies and subunits) to obtain information about implementation status, processes, and system characteristics;

--issued a questionnaire to a scientifically selected sample of 2,085 senior executives to obtain their views about systems being implemented; and

--visited seven agencies to review system processes, interview appropriate officials, and review a limited sample of actual senior executive performance requirements. (The specific information obtained from site visits is not included in this report but was used to obtain background information and a better understanding of the processes agencies were using in implementing their appraisal systems.)

In addition, we reviewed literature on performance appraisal and examined title IV of CSRA and its legislative history.

The agencies we visited were the Department of Energy; National Aeronautics and Space Administration; Department of the Army; Office of Personnel Management; Securities and Exchange Commission; National Oceanic and Atmospheric Administration, Department of Commerce; and Patent and Trademark Office, Department of Commerce. These agencies differed in size, function, and organizational makeup. Our work was centered at headquarters offices where most of the performance appraisal system development occurred.

Of the 53 agencies selected to receive questionnaires, each had 20 or more senior executive incumbents as of

December 31, 1979. These agencies included about 94 percent of the Government's 6,893 SES incumbents (as of December 31, 1979.) All agencies responded. Questionnaires were mailed May 8, 1980.

In addition, of the 2,085 executives sampled in our second questionnaire, 1,565 were from the seven agencies listed above, and 520 were randomly selected from throughout the Federal Government. The response rate was 83 percent. OPM's SES personnel data base, current as of December 31, 1979, was used to select questionnaire participants. Questionnaires were mailed June 12, 1980.

In November 1980, we conducted a telephone followup with the 53 agencies to obtain the current status of their performance appraisal system implementation.

Appendix I to this letter contains background information on SES, appendix II contains the agency questionnaire and responses, and appendix III contains the senior executive questionnaire and responses.

Following is a brief summary of the questionnaire results and some of the more important areas which we believe need OPM and agency attention.

SEVERAL IMPORTANT IMPLEMENTATION PROCEDURES ONLY MINIMALLY USED

The agency questionnaire results revealed that many of the procedures which experts say should be employed in establishing effective performance appraisal systems were not used or only minimally used when implementing SES performance appraisal systems. For example, most of the agencies did not test their systems before implementing them, did not establish specific plans for evaluating their systems, and did not thoroughly train users in the skills needed to effectively carry out the appraisal process. However, on the positive side, agencies apparently did try to involve users in developing their systems.

Most agencies did not pretest their systems

Pretesting is a generally accepted procedure for implementing an effective performance appraisal process. Of the 53 agencies sampled, 46, or 87 percent, did not pretest their performance appraisal systems before implementing them.

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Private industry and State and local government's experience with objectives-based, pay-for-performance appraisal systems indicates that time and practice is needed to implement effective processes. For example, in our March 3, 1981, report on merit pay 1/, we reported results of our discussions with seven experts, three private companies, and three non-Federal government organizations about their experiences with pay-for-performance appraisal systems (similar to SES systems). All of them indicated it would take anywhere from 3 to 10 years to design, test, and establish effective systems, giving users time to develop skills and experience using the system before real decisions were made.

In our report on merit pay, we noted that both State and local government and private sector organizations found that at least several years experience through pretesting or previous use of objectives-based performance appraisal systems was very important to program success. These organizations found that, by pretesting,

--employees began to see the benefits of performance appraisal and developed more positive attitudes,

--supervisors learned to set and evaluate objectives before fully implementing the system, and

--management had the opportunity to study the system and fine tune it before involving all employees.

While testing is normally needed before a performance appraisal system begins to operate smoothly and reliably, few agencies included in our study had the opportunity to pretest their systems. Federal agencies were given less than a year after passage of CSRA to begin using their SES systems. Many of the 53 agencies surveyed did not meet OPM's implementation milestones, although most systems were eventually put into use during fiscal year 1980. As a result, the first few years of SES performance appraisal implementation will be experimental. Our work has already revealed some of the difficulties agencies can expect to encounter. This is

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1/"Federal Merit Pay: Important Concerns Need Attention" (FPCD-81-9). Merit pay is a pay system for Federal employees in grades GS-13 to GS-15 and is designed to improve performance by linking it to pay increases. Merit pay systems, mandated by CSRA, are to be implemented by Federal agencies by October 1981.

not to say, however, that agencies have not tried to implement good systems. We believe most are taking the challenge seriously. Agencies, however, can improve their systems through monitoring and evaluating their appraisal processes to insure that problems are identified early so that corrective actions can be taken.

Need for monitoring and evaluation of systems

According to OPM and other experts, a rigorous evaluation process is a key ingredient to a high quality performance appraisal system. At the time of our survey, less than half (25) of the agencies had established formal plans to evaluate their SES performance systems, although 20 agencies indicated evaluation plans would be established by the end of fiscal year 1981.

Monitoring and evaluation plans should be designed to assess whether the performance appraisal system is contributing to improved organizational effectiveness; is accepted by users; and meets tests of validity, precision, and reliability. Validity is the degree to which an appraisal instrument actually measures job performance. Precision is the degree to which systems are able to discriminate between differences in individual performance, and reliability refers to agreement among raters evaluating the same ratee. In addition, evaluations should determine whether systems are too complicated or take excessive amounts of users' time. Ideally, monitoring and evaluation should begin in the pretesting phase and should continue throughout the life of the performance appraisal system.

Need for additional training

Responses to our questionnaire indicated that many agencies did not thoroughly train users in the skills needed to effectively use SES performance appraisal systems before implementation. Research has shown that, regardless of how well the system is designed, if supervisors are unskilled in administering performance appraisals, the system is not likely to work effectively.

According to OPM and other experts, supervisors should know not only how the system is supposed to work, they should also be skilled in (1) helping subordinates develop clear, meaningful, job-related performance goals and standards, (2) appraising performance in a fair, accurate, and unbiased manner, (3) communicating their appraisals to subordinates

in an open, direct manner and in an atmosphere of trust and mutual respect, and (4) recognizing when and how to give performance counseling. Supervisors also need to view the performance appraisal as a useful management tool and an integral part of their management responsibilities. Otherwise, they may see performance appraisal as nothing more than burdensome paperwork.

As of October 1979--the date systems were to be fully implemented--training had been given in the 53 agencies we surveyed as follows:

--35 agencies (66%) had given training to all their senior executives in policies and procedures of their performance appraisal systems, 5 (9%) to some but not all of their senior executives, and 13 (25%) had given it to none.

--32 agencies (60%) had given training to all executives in developing performance objectives, 9 (17%) to some but not all of their executives, and 12 (23%) had given it to none.

--24 agencies (45%) had given training in performance appraisal skills (how to appraise) to all their executives, 6 (11%) to some but not all of their executives, 18 (34%) had given it to none, and 5 (9%) did not know how many of their executives received this training.

--16 agencies (30%) had given training in performance coaching and counseling skills to all their executives, 11 (21%) to some but not all of their executives, 22 (42%) had given it to none, and 4 (7%) did not know how many executives received this training.

In total, only 14 agencies had given training to all their senior executives in all 4 of these important areas. Furthermore, only 28 had planned to give training in all these areas by October 1980 when the first performance ratings were due. Agencies gave various reasons for not providing training--excessive demands on executives' time; insufficient calendar time; and, to a lesser extent, budget limitations.

Almost half of the senior executives responding to our questionnaire indicated they would like to have more training in each of the four performance appraisal areas. Furthermore, over half (55%) indicated they had difficulty developing performance requirements, and almost two-thirds (63%) reported their system was difficult to use.

Most of the agencies surveyed indicated they would eventually provide additional training to more of their executives, but that the training would probably be limited to a day or less. We do not know whether this additional amount of training will be adequate.

Senior executives' participation in system development appears reasonable

Users' participation in developing performance appraisal policies and processes helps to develop positive attitudes toward the system. Research has shown that users are more committed to an appraisal system if they participate in its design, in contrast to having a system imposed on them from their personnel office or an outside consultant.

All 53 agencies responding to our survey indicated that senior executives at the headquarters level were involved in system design; 45 reported that their senior executives were involved to a moderate or great extent. Paid external consultants were involved to a moderate or great extent in only 6 agencies and not involved in 39 agencies. Fifty-two percent of the senior executives responding said they participated in developing their system at least to a minimal extent, about 35 percent to some extent or more, and 22 percent to a moderate or great extent.

However, according to the 53 agencies responding to our questionnaire, senior executives at regional or field locations did not have as much participation as headquarters executives. Of the 37 agencies with field-located, executives, 16 reported that their executives were involved to a moderate or great extent and 33 reported at least a minimal involvement.

It is difficult to say what extent of participation is satisfactory. There is an obvious practical limit as to how many and to what extent senior executives should participate. However, most agencies apparently have tried to involve senior executives in the development process.

SENIOR EXECUTIVES' ATTITUDES GENERALLY POSITIVE, BUT MIXED

User acceptance is important to the success of a performance appraisal system. We administered a Government-wide questionnaire to SES members to get their views about their performance appraisal systems. SES members' views provide a useful check on how systems are working and reveal problem

areas which may need attention, as well as good aspects of systems which can be useful information to senior agency management.

In response to our questionnaire, approximately five out of every eight senior executives said they supported their agency's SES performance appraisal system, and about half thought senior executives as a whole supported it. In addition, about two-thirds believed the requirement to set specific performance objectives and the opportunity to receive performance feedback would contribute to improved senior executive performance; about three out of five believed opportunities for bonuses and Presidential rank awards would also contribute to improved performance. A slightly smaller percentage, but over half, believed setting performance objectives and opportunities for feedback and rewards would motivate them.

On the basis of these responses, it appears that performance appraisal has gotten off to a reasonably good start in SES--at least a majority of executives see value in the appraisal process, which is a positive note. However, other responses indicate the receptiveness to the processes may be somewhat tentative.

About 36 percent of the SES executives who responded to our questionnaire were indifferent to, against, or had no opinion about supporting their agency's system. Similarly, about one-third responded that setting objectives and receiving performance feedback would not likely improve performance; and almost 40 percent responded that bonuses and rank awards were not likely to improve performance. Moreover, less than half believed their system would have an overall positive effect on their own performance.

Responses to questions about morale were fairly mixed, but with a slight tilt toward the negative. Forty-one percent believed their appraisal system would negatively affect SES morale, 27 percent believed it would have a positive effect, 17 percent no effect, and 15 percent had no opinion. On the other hand, about 32 percent felt that their agency's SES performance appraisal process would positively affect their own morale, while about 29 percent felt it would have a negative effect, 23 percent felt it would have no effect, and 16 percent had no opinion. In addition, only a little more than one-third of the SES members perceived strong top management support for systems.

In general, senior executives believed their performance ratings would be influenced either moderately or strongly by actual performance on the job. However, a fairly large segment also believed several political factors would influence the ratings. For example, over half believed personal relationships with influential persons would have a moderate to strong influence on ratings, and over a third believed that philosophical beliefs coinciding with the current Presidential Administration would influence ratings.

On the basis of voluntary comments written by senior executives in our questionnaires, some of the reasons given for not fully supporting their agency's performance appraisal system and for the decline in morale include the following:

--The appraisal process is a distraction forced on them which makes their jobs more difficult.

--Their performance appraisal system is not designed well.

--Their system cannot work in a bureaucratic environment.

--Their system will require them to step up bureaucratic gamesmanship.

--External politics will prevent delivery of a bonus program to the extent originally promised to SES as an inducement to join.

--Internal politics, favoritism, and pay compression problems will prevent the rating process from working honestly and fairly.

According to OPM and other experts, a critical ingredient to successfully implementing a performance appraisal system is to have strong support from top management. Only 37 percent of senior executives believed the top executives of their agencies strongly supported their SES performance appraisal system, although another 29 percent perceived mild support.

In addition to senior executives' perceptions, our survey of 53 agencies also revealed potential shortcomings in top management commitment. Only 36 agencies claimed their

top executives strongly supported the system, while another 9 reported mild support. The rest reported top executives were indifferent, mildly against the system, or gave no opinion.

AGENCIES HAVE PROBLEMS ESTABLISHING PERFORMANCE REQUIREMENTS

Establishing performance requirements for senior executives before the beginning of the rating period is a problem for many agencies. Our work indicates that agencies experienced this problem in their first and second round of ratings.

CSRA requires that performance requirements for senior executives be established on or before the beginning of the rating period. Of the 53 agencies we surveyed, 12 had performance objectives and critical job elements established and communicated to all their senior executives by OPM's October 1979 deadline. However, 18 of the agencies had not established performance objectives for any of their executives as of October 1979. The remaining 23 agencies had established performance objectives and critical job elements for some of their executives but not for all. As a result, objectives for many executives were not set until well into the rating period for which their objectives applied. Lack of sufficient resources, difficulty in establishing performance objectives, and unrealistic time frames were cited as reasons for missing the deadline.

A telephone followup with the 53 agencies in November 1980 indicated that many continued to have problems in setting performance objectives for senior executives for the second rating period. Only three agencies reported that performance requirements for all executives had been established at the beginning of the second performance appraisal period. Eighteen reported requirements in place for some of their executives, with only four having them in place for more than half their executives. In addition, 18 had not established them for any of their executives, and 13 were uncertain of the status. One agency had not completed the first rating period.

OPM GUIDANCE, ASSISTANCE, AND MONITORING ROLE

Although most of the agencies responding to our questionnaire indicated they received adequate assistance from OPM and did not want more OPM guidance when implementing their performance appraisal systems, a substantial segment

would have liked more assistance. Of the 53 agencies surveyed, 33 (62%) said they received as much guidance as needed or desired, and 29 (55%) said it was timely. Sixteen (30%) received guidance but would have preferred more, and 21 (40%) said the guidance was usually provided later than needed.

CSRA requires OPM to establish standards and regulations for SES performance appraisal systems and to review each agency's system to determine if it meets requirements of the act. To date, OPM has engaged in a number of activities to provide general performance appraisal guidance and information to agencies and to monitor agencies' progress in implementing SES systems. However, it has established only limited standards and no regulations, and has not critiqued the quality of system processes being implemented.

According to OPM program officials, OPM has not taken a more direct role because

--CSRA encourages decentralization of personnel management decisions and gives agencies primary responsibility for designing and implementing their systems;

--CSRA gives fairly detailed specifications for systems, and this precludes the need for immediate regulations;

--the state-of-the-art of performance appraisal is such that there is not available anywhere a single best system which OPM could recommend;

--organizational activity and environment is so diverse in the Federal sector that agencies needed flexibility to develop systems tailored to their individual needs; and

--they wanted to encourage innovation and wait until they could see which agency approaches were working best and what problems emerged before requiring specific measures.

OPM's efforts to date have been primarily oriented toward monitoring implementation status and gathering information for assessing overall progress in implementing SES. Efforts directed specifically to SES systems include

--reviews of SES performance appraisal system plans to determine if the systems conform to CSRA;

--case studies over a 5-year period at four Government agencies to examine the overall effect of several CSRA provisions, including SES;

--onsite progress reviews to monitor agencies' implementation of SES and compliance with CSRA provisions--a portion of each review focuses on SES performance appraisal implementation; and

--a special study in April 1980 on SES performance appraisal, covering 54 agencies (containing more than 90% of SES positions), which highlighted agencies' progress and strategies in designing and developing their appraisal systems.

According to OPM officials, these efforts included little critiquing of appraisal system quality and feedback and few recommendations to agencies for improving systems. However, they informed us that OPM intends to take a more active role in monitoring the quality of agencies' systems and their implementation procedures.

CONCLUSIONS

Non-Federal experience shows that pretesting, user training, evaluation of systems, and several years of development are important steps to implementing successful performance appraisal systems. Since many agencies did not follow these steps in implementing their SES systems, the first few years in operation will be experimental. As a result, agencies need to develop and implement formal evaluation systems to monitor and assess the effectiveness of their SES performance appraisal processes as soon as possible to insure that they are valid, fair, and objective. Unless a reliable and timely method exists for evaluating and monitoring appraisal systems, areas which need attention, change, or improvement cannot be effectively identified. On the basis of our questionnaire results, agencies need to address areas such as training, establishing performance requirements, and obtaining top management commitment to the SES appraisal process.

While the results of our study should only be viewed as early observations and not as conclusive evidence about the quality of systems or likelihood of their success, they do signal areas for agencies, OPM, and the Congress to be concerned about as SES performance appraisal systems continue in operation. Agencies still have time to correct their performance appraisal systems before problems become too difficult to overcome. User acceptance is very important to

successful implementation of performance appraisal systems, and agencies should continue to obtain feedback from SES members to monitor problems they may be experiencing. The questionnaire results in appendixes II and III can help agencies identify problem areas and can serve as the basis for future evaluations of their systems.

RECOMMENDATIONS

We recommend the Director, OPM:

--Require agencies to establish and implement comprehensive evaluation and monitoring systems for their SES performance appraisal processes.

--Issue minimum standards and requirements which should be included in all evaluation systems implemented by agencies.

--Provide guidelines to agencies on how to establish and implement an effective evaluation process.

--Follow up with agencies to insure that evaluation systems are being properly and effectively implemented.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement of actions taken on our recommendations. This written statement must be submitted to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report. A written statement must also be submitted to the House and Senate Committees on Appropriations with an agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and to the head of each agency involved in our review.

Sincerely yours,

Clifford I. Gould
Director

APPENDIX IX

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

ACHIEVING REPRESENTATION OF MINORITIES AND WOMEN IN THE FEDERAL WORK FORCE

D I G E S T

The Civil Service Reform Act of 1978 made Federal agencies responsible for establishing recruiting programs to eliminate underrepresentation of minorities and women in the Federal work force.

The act requires the Equal Employment Opportunity Commission to establish guidelines for agencies to use in carrying out the program and the Office of Personnel Management to issue regulations implementing a minority recruitment program.

The Office of Personnel Management required agencies to develop and have in operation by October 1, 1979, plans for eliminating underrepresentation of minorities and women. The Office reported in its annual report to the Congress that, as of January 1980, about 70 percent of the agencies were still developing plans.

Congressional hearings in June 1980 confirmed that agencies' progress in implementing the recruitment program has been slower than anticipated.

EMERGING POLICY ISSUES

Several policy issues which need to be resolved will affect the direction of the Government's efforts to recruit, hire, and promote minorities and women in sufficient numbers to achieve a representative work force.

These issues follow:

FPCD-81-5

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--How the labor force of the United States is to be defined. (See pp. 5 and 6.)

--How to use the civilian labor force 1/ for measuring underrepresentation for the recruitment program. (See pp. 6-11.)

--How to integrate the use of the civilian labor force into the affirmative action goal-setting process. (See pp. 11-17.)

Issues affecting the recruitment program also affect the Commission's Federal Affirmative Action Program since recruiting is a basic part of the process of selecting and hiring. The Office of Personnel Management and the Equal Employment Opportunity Commission need to work together to successfully resolve the above issues and improve the future administration of both the Federal Equal Opportunity Recruitment Program and the Affirmative Action Program.

STARTUP AND STATUS OF THE PROGRAM

None of the eight agencies in GAO's review had operational recruitment plans in place by October 1, 1979. However, all agencies, except one, had developed plans by January 31, 1980.

Agency officials told GAO that recruitment plans were delayed because of:

--Late program guidance. Guidance from the Office of Personnel Management was

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1/The civilian labor force is defined as all persons 16 years of age and over, except those in the Armed Forces, who are employed or who are unemployed and seeking employment.

provided in draft form in July 1979 and not finalized until September 1979. (See pp. 23 and 24.)

--Significant data collection requirements. For example, the Social Security Administration had to collect data manually from 40 district offices and 50 major components to calculate underrepresentation. (See pp. 24 and 25.)

--Uncertainty over the relationship between the recruitment program and the Affirmative Action Program. Instructions for developing affirmative action plans were not issued by the Equal Employment Opportunity Commission until December 1979. (See pp. 25 and 26.)

During the first year neither the Office of Personnel Management nor the Equal Employment Opportunity Commission had fully discharged its responsibilities for evaluating the recruitment program.

The Office of Personnel Management prepared a plan for evaluating the first year of the recruitment program which called for

--developing evaluation criteria and evaluating the program by using the Office's existing Personnel Management Evaluation System,

--addressing the effectiveness of the recruitment program in its annual report to the Congress, and

--developing a sampling plan for selecting agency recruitment plans for review.

However, because few plans had been developed and implemented in time to meet the deadline

APPENDIX IX

for the annual report, it was a status report on the program which did not address the program's effectiveness. Further, as of June 16, 1980, the Office of Personnel Management could not provide GAO with the criteria to be used in selecting agency recruitment plans for review.

Internal management plans of the Equal Employment Opportunity Commission called for reviewing 200 agency affirmative action plans from December 1979 through February 1980. The affirmative action plans were to include recruitment plans; however, instructions for developing affirmative action plans were not issued until December 1979 and did not require plans to be submitted until February 1, 1980. (See pp. 27 and 28.)

ISSUES NEEDING RESOLUTION

Because of the high degree of interrelationship between the recruitment program and the Affirmative Action Program, the Office of Personnel Management and the Equal Employment Opportunity Commission need to coordinate their activities to assure a clear understanding of their respective responsibilities, eliminate potential duplicative efforts, and minimize the burden the two programs place on agencies.

The Office of Personnel Management and the Commission consulted closely on the development of guidelines for the recruitment program. Several issues had not been resolved prior to the Office$s issuance of final guidance. The two agencies have since stated their respective responsibilities for the recruiting program and the Affirmative Action Program and have drafted a memorandum of understanding. However, GAO believes these steps are not adequate because they do not clearly delineate (1) who

reviews guidance and (2) what actions must be taken to resolve conflicts. (See pp. 28 and 29.)

The two agencies have not fully coordinated their evaluation efforts. Officials at both agencies were unsure about how field evaluations for the recruitment program and the Affirmative Action Program could be integrated into a systematic evaluation strategy. (See pp. 33 and 34.)

The Office and the Commission also differ on their approaches to measuring underrepresentation.

--They have defined occupational categories for which underrepresentation is to be computed differently. (See pp. 29 and 30.)

--The Office allows use of local civilian labor force data for all occupational groupings at General Schedule grade 4 or below. The Commission allows it only in limited circumstances. (See p. 30.)

--The Office requires that underrepresentation for professional positions be compiled by comparison with the civilian labor force. The Commission requires agencies to compare their professional work force with the professional labor force. (See pp. 31-33.)

Both the Office and the Commission have taken steps to promote efficiency and eliminate inconsistency in administering their program responsibilities, but, if additional actions are not taken, new delays in issuing further program guidance could occur and evaluations could be inconsistent and duplicative. Inconsistencies between the Office's and the Commission's approaches to measuring underrepresentation need to be resolved.

APPENDIX IX

RECOMMENDATIONS

The Director, Office of Personnel Management, and the Chair, Equal Employment Opportunity Commission, should:

--Clarify their respective responsibilities for managing the Federal Equal Opportunity Recruitment Program. This would include determining (1) the authority for respective responsibilities and (2) actions each agency must take when issuing and modifying regulations and guidelines.

--Clarify common evaluation responsibilities and how they will be coordinated to eliminate duplication and inconsistency.

--Identify and eliminate inconsistencies between the recruitment program and the Affirmative Action Program so that the recruitment program becomes an effective element of affirmative action.

--Examine the data requirements for recruitment plans and determine what data can be used from the Office's Central Personnel Data File to minimize agencies' data burden and allow them more time to develop and implement the plans.

--Work with Federal agencies to gather appropriate occupational data on relevant labor markets for various Federal occupations. This data should be collected for each Standard Metropolitan Statistical Area, each State, and the country.

GAO further recommends that the Chair, Equal Employment Opportunity Commission, amend affirmative action guidelines to include appropriate occupational data and time frames as the baseline for establishing short-term and intermediate-range hiring goals.

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should consider the practical difficulties agencies face in trying to achieve a representative work force based on the Equal Employment Opportunity Commission's definition. The Congress may wish to clarify its intent on how representation should be defined and achieved.

AGENCY COMMENTS AND GAO'S EVALUATION

The Office of Personnel Management did not comment directly on the recommendations, but stated that the report presents an accurate and balanced assessment of its efforts to (1) implement the Federal Equal Opportunity Recruitment Program and (2) insure consistency between it and the Affirmative Action Program. The Office was concerned that the report implies that requirements for the two programs should be identical in every respect. In addition, it stated that the report's emphasis on recruitment from external sources ignores internal recruitment of underutilized minorities and women.

GAO recognizes that the recruitment program and the Affirmative Action Program are different programs with different goals. However, the two programs are highly interrelated. Recruitment to enrich the applicant pools from which selections are made should result in increased hiring of women and minorities. GAO does not intend to imply in this report that the two programs' requirements should be identical but that

the two agencies should strive for consistency in requirements to avoid confusion in complying with each program's requirements and to avoid undue workload demands on Federal agencies.

GAO agrees that internal recruitment of women and minorities will result in movement of women and minorities within the Federal work force. However, GAO believes that a major source of improvement in total representation of women and minorities in Federal agencies will occur through entry level positions which have historically been filled through the recruitment of individuals currently outside Government employment.

The Equal Employment Opportunity Commission generally agreed with the conclusions and recommendations. However, the Commission suggested that GAO modify the recommendation for obtaining data reflecting the availability of minorities and women for various Federal occupations. GAO concurred in the Commission's suggestion. This point is discussed further on page 19. Additional comments by the Commission are discussed in appropriate sections of the report.

APPENDIX X

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

SEPTEMBER 5, 1980

B-199378

The Honorable Alan K. Campbell
Director, Office of Personnel
Management

Dear Mr. Campbell:

Subject: OPM's Initial Attempts to Implement Demonstration Provisions of the Civil Service Reform Act of 1978 (FPCD-80-63)

In this letter we discuss our observations on the Office of Personnel Management's (OPM's) initial attempts to encourage and evaluate proposals for demonstration projects authorized by title VI of the Civil Service Reform Act of 1978. These projects are intended to determine whether a specified change in personnel management policies and procedures would result in improved Federal personnel management. They can involve waivers of certain existing laws, rules, and regulations. For that reason, title VI requires that project proposals proceed through a process of public notice, public hearing, and congressional review.

We made this review because of the concern we share with you that the central management agencies of the Federal Government have a special responsibility for leadership in improving the quality, quantity, and usefulness of research related to public management. We are encouraged by recent initiatives you have taken to create a stronger leadership role in identifying, developing, and evaluating potential demonstration projects. We are reporting to you at this time to provide perspectives on why new initiatives were needed, to encourage those actions which have been taken; and to recommend additional steps which, we believe, would further strengthen the administration of the demonstration provisions of title VI.

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B-199378

Our work consisted of examining documents and holding discussions with various personnel involved with title VI work. We did our work at headquarters offices of OPM and the Merit Systems Protection Board and at the two agencies which had moved the furthest along on title VI proposals in April 1980--the Department of the Navy and the Internal Revenue Service, Department of the Treasury. We visited the Naval Oceans System Center, San Diego, and the Naval Weapons Center, China Lake, where the Navy proposal is being implemented. We also spoke with researchers at the University of Southern California in Los Angeles and Georgia State University in Atlanta who are preparing the proposal for an OPM-funded evaluation of the success of the Navy project. We also visited the Atlanta Service Center which is participating in developing the Internal Revenue Service's proposal.

We concluded that the results of OPM's efforts to solicit demonstration projects were disappointing. Procedures for evaluating proposals were inefficient and not based on a frame work which recognizes the unique costs and benefits of the demonstration concept. Moreover, the initial projects may have limited potential for application beyond the demonstration sites and, in one case, may have difficulty demonstrating successful results.

Our work was done during a period when resources for demonstration projects had to be weighed in relation to other OPM responsibilities for implementing the Civil Service Reform Act. We recognize that a number of these other responsibilities involved critical elements of time. We also recognize that the newness of title VI authority required a period of experimentation on the best ways to exercise it. We are encouraged by recent discussions we have had with senior officials of the Office of Planning and Evaluation, which indicate that more attention and resources are now being directed to demonstration efforts.

These senior officials said that planning, development, and administrative activities involving title VI had increased markedly and that progress was being made. For example, all of OPM's research activities will be reviewed to determine their overall applicability to public management. Procedures are being developed to initiate, develop, market, and administer demonstration projects with appropriate OPM oversight and evaluation. These activities suggest that OPM's research and demonstration responsibilities are receiving more management attention, and we anticipate that this will prove fruitful.

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We recommend that, to further increase the effective use of title VI authority, you assume the leadership in setting objectives, establishing requirements, and assigning responsibilities among agencies and activities involved in title VI projects. This can best be done, we believe, by instituting procedures for

--insuring that title VI project proposals are reviewed for their potential for generalizing results and that project evaluation plans include details on how generalization will be tested;

--insuring that proposals are reviewed against a frame work of research needs, which recognizes the unique nature of title VI projects; and

--providing guidance on the purpose, scope, and timing of employee consultations;

Details pertaining to our observations, conclusions, and recommendations are presented in the enclosure. We plan to continue monitoring title VI demonstration activities and will be informing you of our observations.

Sincerely yours,

H. L. Krieger
Director

Enclosure

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

B-198497

Ms. Mary Eastwood
Acting Special Counsel
Office of the Special Counsel

Dear Ms. Eastwood:

As part of our congressionally mandated activities, we have reviewed the Office of the Special Counsel, within the Merit Systems Protection Board, to determine how the Office is implementing its responsibilities to whistleblowers--those present or former Federal employees, or applicants for Federal employment, who report Government illegalities, mismanagement, waste, abuse of authority, or danger to public health or safety.

We recognize that in addition to your serious startup problems, more recent problems, such as (1) the lack of a permanent Special Counsel, (2) budget reductions, and (3) the unclear operating relationship between the Office of the Special Counsel and the Merit Systems Protection Board, have hampered your office's operations.

In spite of these obstacles, however, it is our opinion that the Special Counsel's office can make several improvements to better manage its whistleblower responsibilities. We believe the Special Counsel's office can improve its operations by

--establishing a system to insure timely processing of whistleblower complaints;

--improving communications with whistleblowers; and

--instituting followup procedures to insure that agency reports responding to whistleblower allegations are accurate and that agencies take prompt, corrective action.

Because Federal employees are still uncertain about the role, responsibilities, and procedures of the Office of the Special Counsel with regard to whistleblowing, the Special

Note: From our report, "The Office Of The Special Counsel Can Improve Its Management Of Whistleblower Cases," FPCD-81-10, December 30 1980.

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Counsel needs to provide clear guidance to Federal employees on how to report Government waste, mismanagement, and general wrongdoings.

We conducted our review at the Special Counsel's headquarters in Washington, D.C. We interviewed Special Counsel officials and analyzed 72 whistleblowing types of allegations which the Special Counsel closed during the first 3 months of 1980. We also obtained views and comments from agency, union, special interest group representatives and selected whistleblowers, regarding their experiences and impressions of the operations of the Special Counsel.

Following is a brief discussion of areas where the Special Counsel's operations can be improved. A more detailed analysis, followed by your agency's comments, is included in the appendix. (See app. I and II.)

CASE PROCESSING DELAYS NEED TO BE RESOLVED

Our examination of 72 whistleblowing type allegations indicates that complaint processing is generally not effectively managed. At present there is no system to insure that cases are processed in a timely manner. As a result, delays are common in every phase of case processing.

The Civil Service Reform Act requires the Special Counsel to promptly transmit to the agency involved the information on an alleged wrongdoing and to determine, within 15 days after receipt of a complaint, whether the information shows a substantial likelihood that a violation has occurred. Of the 72 allegations we reviewed, not one was required to have an indepth investigation; only 12 were forwarded to agencies. For these 12 cases, the Special Counsel's office took an average of 95 days to request an agency report after receiving the complaint. Overall, processing a case from start to finish took the Special Counsel an average of 195 days.

Once the agency report is received, the Special Counsel is required to inform the complainant of the agency's response to the allegations. The transmittal of these reports has also been slow. For the 72 cases reviewed, your office took an average of better than 71 days just to notify the whistleblower that the Special Counsel had received the agency's report.

Our review shows that one of the causes for delays in processing is the lack of an effective case-tracking and case-monitoring system. The index card file system has not

provided a means for effectively monitoring, managing, and tracking not only whistleblower cases, but also the other types of complaints received by the Special Counsel. While we are aware that the office is working on an automated case-tracking system, it has not yet been put into full operation. Currently, the Special Counsel's office is transferring data maintained on the index cards to the automated system. Unless the automated system, when put into full operation, is used to insure that cases are processed within established time limits, it will not correct the case processing problems we identified.

In all likelihood, the Special Counsel's office will receive more whistleblower complaints as its responsibilities become better known among Federal employees. Then the need for an effective case-tracking/monitoring system, with established processing time targets, will become even more critical. Such a system would also help management in making decisions affecting the operations--staffing, budgeting, and resource allocations--of the entire office.

We recommend that the Special Counsel's office control its caseload by placing a high priority on improving its case-tracking/monitoring system.

NEED FOR BETTER COMMUNICATION WITH WHISTLEBLOWERS

Communication between the Special Counsel and whistleblowers can be improved. Our analysis of the 72 allegations indicates that it often takes the Special Counsel months to inform individuals of the action which will be taken regarding their complaints. Specifically, the Special Counsel took an average of 87 days to tell individuals in 33 of the 72 cases that their complaints did not fall within the Special Counsel's jurisdiction. For the 12 cases on which the Special Counsel's office requested an agency report, it took an average of 98 days before complainants were notified that their complaints had been referred to the concerned agency for a report.

In addition, there is a need to insure that a whistleblower's allegation is clearly understood and communicated to the agency involved. Five of the six agency officials we interviewed stated that it is often difficult and time consuming to identify the specific issues in whistleblower allegations because these allegations are not clearly presented to the involved agencies.

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We recommend that the Special Counsel improve its communication with whistleblowers to assure that their allegations are clearly understood and that they are kept informed of the progress of their cases.

FOLLOWUP ON AGENCY REPORTS NEEDED

When the Special Counsel's office receives an agency report, the office does not determine the accuracy of the report. Nor does the office determine if corrective action has or has not been taken.

The Special Counsel's office did not question any of the 12 reports received and considered all 12 cases closed after receiving the agency reports. However, at the time of our review, we found that final action had not yet been taken in at least five of the cases. Also, none of the agencies indicated when they would complete corrective action, even though the Reform Act requires them to do so.

In eight cases, agencies reported to the Special Counsel that they had either taken corrective action or would further study the alleged problem. The Special Counsel's office, however, did not monitor either the implementation, timeliness, or effectiveness of the action taken or proposed.

We believe that the Special Counsel's office is taking a narrow interpretation of its responsibilities in reviewing agency reports. The Special Counsel's office believes that when it does not require an agency to investigate an allegation in depth, the Reform Act authorizes the Special Counsel to inform the whistleblower of the agency's report, but does not authorize the Special Counsel to take further action concerning the report, or to make any comments on the report's accuracy. While the Reform Act does not require the Special Counsel to review agency reports, the act does not specifically prohibit such reviews.

It is our view that whistleblowers can be a valuable source of information in following up on agency reports. Our review of the Special Counsel's correspondence which forwarded agency responses to whistleblowers indicates that such feedback or assistance is not encouraged.

We recommend that the Special Counsel follow up on agency reports responding to whistleblower allegations and actively encourage complainants' evaluations and comments to these reports.

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ADDITIONAL INFORMATION ON SPECIAL COUNSEL PROCEDURES NEEDED

We believe that the Special Counsel can do more to encourage Federal employees to report improper or illegal Government activities. Federal employees appear confused about the role and responsibility of the Special Counsel. This confusion was substantiated not only in interviews we held with the Acting Special Counsel and some agency officials, but also by the large number of cases received by, but not within the jurisdiction of, the Special Counsel's office.

While the present Acting Special Counsel has taken a number of steps to dispel this confusion, we believe additional emphasis is still needed. At present, an informational pamphlet prepared by the office does not provide in clear layman's language examples of reportable wrongdoings or prohibited personnel practices that fall within the Special Counsel's jurisdiction. We recommend that the Special Counsel place greater emphasis on encouraging Federal employees to disclose wrongful activities by more clearly informing agencies and employees of its role in receiving whistleblower complaints.

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We received formal comments on this report from the Acting Special Counsel who did not completely agree with our conclusions. However, it is our view that the Acting Special Counsel's comments did not fully address the major issues in our report. For example, the Acting Special Counsel did not fully address the delays in case processing, the need for followup procedures to assure that agency reports are accurate, and the need for improving communication with whistleblowers. In discussions with the Acting Special Counsel during our work, however, these problems were recognized, and we were told that corrective action would be taken. The Acting Special Counsel also did not agree with our position regarding the Special Counsel's pamphlet. Our detailed response to the Acting Special Counsel's comments are discussed in the appendix.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than

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60 days after the date of the report. This written statement must also be sent to the House and Senate Committees on Appropriations, with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Senate Committee on Governmental Affairs; the House Committee on Post Office and Civil Service; the Director, Office of Management and Budget; the Deputy Director, Office of Personnel Management; and the Chair, Merit Systems Protection Board.

Sincerely yours,

H. L. Krieger
Director

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

VOLUNTARY EARLY RETIREMENTS IN THE CIVIL SERVICE TOO OFTEN MISUSED

D I G E S T

Too many Federal civil service employees are being allowed to retire earlier than they normally could.

Initially, early retirements were meant to open up jobs for younger employees who would otherwise be dismissed during agency reductions or reorganizations. GAO believes this is a laudable objective. However, costly early retirements are being used to solve a variety of perceived or actual staffing problems and are saving few, if any, jobs. The law should be revised to preclude early retirements unless it is highly likely that jobs will be saved.

Before 1973, Federal employees could retire early only if they were being involuntarily separated by such actions as a reduction in force. In 1973, the law was changed to allow the Civil Service Commission (now the Office of Personnel Management (OPM)) to approve voluntary early retirements for employees not directly affected by work force reductions.

The primary objective of this change was to soften the blow of a major reduction by making jobs available to younger employees who would otherwise be dismissed without any retirement benefits. The Commission's guidelines authorized early retirement for any qualified employee if 5 percent of the employees of an organization or unit faced involuntary dismissal. (See pp. 1 and 2.)

The Civil Service Reform Act authorized early retirements in additional situations--specifically, major reorganizations or transfers of function, in addition to reductions in force. New guidance from OPM allowed early retirement for any qualified

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employee if 5 percent of the occupied positions in an organization or unit were to be abolished or transferred. (See pp. 2 and 3.)

The Reform Act change substantially liberalized the early retirement program. It allowed employees to retire early even when position transfers and abolishments posed no threat of dismissal or demotion. Usually, affected employees were simply reassigned to newly created positions with the same duties and grades. In many cases, new hires were required to replace early retirees, and, in others, early retirees themselves were brought back as reemployed annuitants. GAO believes allowing early retirements when employees are not facing dismissal is contrary to sound retirement policy.

The following examples demonstrate how the expanded early retirement authority has been used.

--The Merit Systems Protection Board, created from the old Civil Service Commission, was given early retirement authority before the Board existed or anyone knew how it would be organized. The authority was not needed, but seven appeals officers retired early and had to be replaced. (See pp 10 and 11.)

--During a reorganization, OPM allowed 149 early retirements even though no employees were faced with dismissal. In most cases, positions were abolished and employees were reassigned to new positions. Few employees were adversely affected. (See pp. 7 to 9.)

--The Department of Energy reclassified over half of its headquarters positions. This qualified as a reorganization, and the

Department received an early retirement authorization. Few employees were adversely affected, but 206 employees retired early and had to be replaced with new hires. (See pp. 11 to 13.)

--Fort Bragg received two early retirement authorizations in a year. Part of the reason for the second was to correct staffing imbalances caused by the first. Neither was needed because staffing problems could have been solved by attrition had action been taken in time. (See pp. 13 and 14).

In other cases, agencies' estimates of the impact of reductions were poorly documented and proved to far exceed the eventual outcome. Early retirements in these agencies resulted primarily in new hiring, not job savings. GAO also found a tendency for agencies to overstate the benefits derived from early retirement authorizations.

Early retirements are costly--GAO estimates they cost at least $109 million in fiscal year 1980--and should be used judiciously. OPM is now examining early retirement requests more closely. This should help improve program administration. However, GAO questions OPM's premise that employees need only be minimally affected for an agency to qualify for an early retirement authorization, even including decreased promotion potential due to restructuring of jobs. This premise is particularly troublesome in view of the improved saved grade and pay features of the Civil Service Reform Act. (See ch. 3.)

RECOMMENDATION TO THE CONGRESS

Because of the program's liberal policies, the number of early retirements is increasing and many are unjustified. GAO recommends

that the Congress repeal early retirement provisions included in the Civil Service Reform Act and mandate that, OPM establish controls necessary to insure itself that before an early retirement authorization is granted it would (1) correct staffing problems which could otherwise only be corrected by a reduction in force and (2) save jobs for other employees. (See p. 27.)

AGENCY COMMENTS AND GAO EVALUATION

OPM disagreed with GAO, stating that it is too early to consider changes to the law since the revised early retirement program has been in effect for less than 2 years. OPM also stated that the early retirement program can be invaluable in helping agencies reorganize with minimal disruption to their operations. GAO believes that this position does not appropriately consider the unnecessary retirements that have been allowed under the program as presently designed. (See pp. 27 to 30.)

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202438 APRIL 7, 1981

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental
Affairs
United States Senate

The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

Subject: Federal Employees Excluded From Certain Provisions of the Civil Service Reform Act of 1978 (FPCD-81-28)

Section 2302 of title 5, United States Code, added by section 101 of the Civil Service Reform Act of 1978 (Public Law 95-454) protects most Government employees from specified prohibited personnel practices, such as discrimination, political coercion, and reprisals. This protection does not apply to employees in (1) Government corporations, (2) the Federal Bureau of Investigation and agencies which conduct foreign intelligence or counterintelligence, or (3) the General Accounting Office. However, employees in some of these agencies are well protected under other provisions of law. According to the Merit Systems Protection Board's Office of the Special Counsel, there have been many complaints of personnel abuse within Government corporations whose employees are not as well protected. In our opinion, employees in Government corporations covered by other parts of the Reform Act and other civil service laws and regulations should also be covered by the provisions in section 2302.

While the heads of Federal agencies are responsible for preventing personnel abuses, the Office of the Special Counsel was given the responsibility for investigating and prosecuting violations of section 2302. In addition, Federal employees are entitled to certain protections against violations of this section. For example, the Special Counsel may request the Merit Systems Protection Board to stay any personnel action if the Counsel believes that the action was taken or is to be taken as a result of a violation of section 2302. This protection applies to employees of most Government agencies.

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The General Accounting Office, under separate legislation, has its own personnel system with an independent appeals board responsible for investigating and resolving allegations of prohibited personnel practices. Employees of the Federal Bureau of Investigation are also protected against personnel abuse, and the President is responsible for providing enforcement in a manner consistent with that of the Office of the Special Counsel. Employees of certain Government corporations excluded from section 2302 generally do not have similar protection against personnel abuse, except that coverage which existed before the Civil Service Reform Act. In this respect, competitive service employees may appeal, for example, removals and suspensions for more than 14 days, to the Merit Systems Protection Board. Appeals from these actions were previously handled by the former Civil Service Commission's appellate offices. However, these Government corporation employees are not provided the type of independent review and protection that is available to most civil service employees from the Office of the Special Counsel.

We reviewed selected reports and documents of the President's Personnel Management Project and the legislative history of the Civil Service Reform Act to determine the justification for excluding all Government corporations from section 2302. While we understand the need for exempting the Federal Bureau of Investigation and agencies engaging in intelligence and counterintelligence activities, we could not identify any explanation for the need to exempt all Government corporations from this section.

According to the Special Counsel's office, it is not clear whether all corporations are excluded from section 2302. For example, in early 1980, the Office of the Special Counsel was requested to investigate serious and widespread allegations of personnel abuse within the Federal Crop Insurance Corporation. The Special Counsel declined to initiate an investigation because it believed the section excluded all Government corporations. However, the Special Counsel now believes that it has jurisdiction in this area because the Federal Crop Insurance Corporation is within the Department of Agriculture, an executive agency covered by the section. Officials of the Special Counsel's office admit that, because of the uncertainty, the Office's assertion of jurisdiction may be legally contested.

While we could find no current listing of Government corporations, we contacted 46 which were either wholly owned, partially owned, sponsored, or controlled by the Government. Thirteen have employees in competitive service positions and are required to follow other civil service laws and regulations but are excluded from section 2302. (See enclosure.) Eight of these 13 corporations are within an executive department or agency, and the remaining 5 are independent.

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We talked with the personnel directors of these 13 corporations about the coverage of section 2302. While it is not totally clear that coverage extends to corporations within executive departments or agencies, the personnel directors of the eight corporations stated that they assumed that the provisions applied to their corporations. All but one--Inter-American Foundation--of the independent corporations believed their employees should be entitled to the protections that other Federal employees have. Also, the Export-Import Bank has requested legislation which would extend coverage of section 2302 to its employees.

We also discussed these matters with officials of the Office of the Special Counsel and the Office of Personnel Management. The Office of the Special Counsel told us that it agreed with our position and had suggested in its first annual report that the Congress consider extending the statutory protections to employees of Government corporations and the Library of Congress. Officials of the Office of Personnel Management told us that the primary intention of excluding Government corporations from section 2302 was to exempt those such as the Tennessee Valley Authority which have been generally excluded from most other civil service laws and regulations and operate under separate personnel, pay, and benefit systems.

In our opinion, there is no justification for excluding certain Government corporations from the prohibited personnel practices provisions. We recommend that 5 U.S.C. 2302(a)(2)(C)(i) be amended by deleting the term "Government corporation" and inserting instead the following:

> "* * * Government corporations exempted from civil service laws and regulations governing the appointment and removal of officers and employees of the United States."

This amendment would extend coverage to those corporations with employees in covered positions. Other corporations, such as the Tennessee Valley Authority whose positions are exempted from the civil service, would not be affected.

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We are sending copies of this report to the Director, Office of Personnel Management; the Chair, Merit Systems Protection Board; and the Acting Special Counsel, Office of the Special Counsel.

Milton J. Socolar

Acting Comptroller General
of the United States

Enclosure

APPENDIX XIII

CORPORATIONS CONTACTED WITHIN THE CIVIL SERVICE SYSTEM

Corporation	Classification	Management
Export-Import Bank of the United States	Wholly owned	Independent agency
Federal Crop Insurance Corp.	Wholly owned	Dept. of Agriculture
Federal Deposit Insurance Corp.	Government controlled	Independent agency
Federal Prison Industries	Wholly owned	Dept. of Justice
Federal Savings & Loan Insurance Corp.	Wholly owned	Federal Home Loan Bank Board
Government National Mortgage Assoc.	Wholly owned	Dept. of Housing and Urban Development
Inter-American Foundation	Wholly owned	Independent agency
National Credit Union Admin. Central Liquidity Facility	Government sponsored	National Credit Union Administration
New Community Development Corp.	Government controlled	Dept. of Housing and Urban Development
Overseas Private Investment Corp.	Wholly owned	Independent agency
Pennsylvania Avenue Development Corp.	Wholly owned	Independent agency
Pension Benefit Guaranty Corp.	Wholly owned	Dept. of Labor
St. Lawrence Seaway Development Corp.	Wholly owned	Dept. of Transportation

APPENDIX XIV

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FEDERAL PERSONNEL AND
COMPENSATION DIVISION

SEPTEMBER 15, 1980

B-200276

The Honorable Alan K. Campbell
Director, Office of Personnel
Management

Dear Mr. Campbell:

Subject: Interagency Advisory Group for Personnel Policy and Operations (FPCD-80-77)

Since implementation of the Civil Service Reform Act in January 1979, the relationship between the new Office of Personnel Management (OPM) and agency personnel staffs has been fundamentally altered. Accordingly, the Interagency Advisory Group (IAG) was restructured to reflect this changed relationship. We examined the new structure and the activities of IAG and talked with OPM officials and many agency personnel directors about the group. We believe several changes may improve IAG's efficiency and effectiveness.

IAG was, and is, an excellent forum for regular communication from the agency personnel directors to OPM, and vice versa, as well as a network for personnel directors. Because personnel activities have been decentralized, information sharing between OPM and the personnel directors and among the personnel directors are more important than ever.

The former Civil Service Commission dealt almost exclusively with agency personnel directors. OPM has opened and widened the lines of communication to agencies and has encouraged two-way dialogue on policy issues by also involving agency heads, assistant secretaries, and line managers in personnel activities.

Although informal communication channels between OPM and agencies exist with all OPM groups, two formalized organizations--the restructured IAG and the Agency Relations Group--were established by OPM to foster better communication with the agencies.

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IAG, under its new charter, was "established to provide a mechanism for continuing consultation between OPM and agencies of the Federal Government in personnel management policy and operational matters." The current structure attempts to provide a forum for personnel directors to discuss

--policy issues of broad significance relating to work force productivity, effectiveness, and accountability;

--proposed legislation and executive initiatives concerning recruitment and management issues; and

--program improvements especially in relation to deregulation of authority.

IAG is located organizationally in the Office of Planning and Evaluation (OPE), because IAG's mission has included policy development, a function of OPE. Although ultimate responsibility and staff support lies with OPE, a key component of IAG is its mission subgroups who have worked with another OPM unit, the Agency Relations Group, which

--serves as a contact or focal point for agencies in dealing with OPM;

--gives OPM an agency-focused approach and build knowledge of agencies' activities; and

--coordinates OPM activities internally and externally.

Agency officers establish working relationships with agency heads and assistant secretaries as well as personnel directors and have an understanding of their concerns. Concerns for IAG thus have been shared between two OPM units.

IAG members are organized into five major "community of interest" subgroups. The Executive Committee, composed of three elected representatives from each of the five subgroups, serves as the IAG steering committee and sets yearly objectives. Specific program and technical issues are studied by IAG program committees. Sitting on these committees are key agency functional specialists designated by the personnel directors. The committees are chaired by appropriate OPM staff and report to both IAG and OPM on their findings.

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The new structure appears to be working well for the program committees which deal with narrowly defined topics and are run as they were under the Civil Service Commission. However, only one of the mission subgroups, the Natural Resources, Energy, and Science Group has had regular and successful meetings. The functioning of this subgroup can be attributed to three factors: (1) the natural homogeneity of the subgroup, (2) the Executive Secretary, a former personnel director who personally knows some of the group, and (3) the Agency Relations' Assistant Director's devotion of time and energy to making the group work. Without his leadership and constant prodding, the Natural Resources subgroup would not be working well, OPM officials said.

Having relinquished much of its control over IAG to the personnel directors, OPM now serves primarily in a support capacity. Individual personnel directors have made valiant efforts to sustain and give direction to IAG; however, the personnel directors as a group have failed to assume the leadership role. Some personnel directors have lost interest in IAG beause they do not have a significant role in the policymaking process.

An additional advisory body to top OPM officials is the Assistant Secretaries' Working Group, a longstanding group, revitalized to serve as an advisory body to the President's Federal Personnel Management Project. The group meets periodically with the Deputy Director, OPM, to discuss broad policy issues. A small agency, Executive/Administrative Directors Group parallel to the Assistant Secretaries' Working Group, was established recently.

In our conversations with OPM officials and agency personnel directors, it was apparent that, with the shifting relationships between OPM and the agencies and the increased visibility of the Assistant Secretaries' Working Group, some personnel directors believe the Assistant Secretaries' Working Group now fulfills some of the functions previously handled by IAG. They are particularly sensitive to the actions of this group when their Assistant Secretaries fail to communicate group proceedings.

Although it is crucial to the success of the Civil Service Reform Act for Assistant Secretaries and line managers to be more active in personnel issues than they have been traditionally, it is equally important to retain the interest and enthusiasm of the personnel directors who have vital knowledge and implement many of the personnel changes.

OPM has tried in a variety of ways to make IAG a dynamic organization responsive to the recent changes of the Reform Act and Reorganization Plan No. 2 of 1978. IAG meetings with the Deputy Director, institution of quarterly one-day conferences, the development of a white paper on the role of the personnelist, and efforts to establish an Executive Officer Group for small agencies are to be commended. We believe, however, that OPM could take further actions to improve the operations of IAG and involve personnel directors in the policy development process in a more substantial and positive way.

First, we recommend relocating IAG from OPE, where it is housed, to the Agency Relations Group. OPE, since it serves all of OPM, could continue providing the necessary white papers to IAG. By locating IAG in the Agency Relations Group, the policy development functions would not be lost; rather, IAG would be unified with its mission subgroup directors and the agency officers who have daily contact with agencies. This, in our opinion, would achieve a better functional fit. With only one OPM unit responsible for IAG, "ownership" for its problems could be established, and OPM leadership could be developed. The individual responsible for IAG (Associate Director, Agency Relations) would have direct authority over the Assistant Directors for the mission subgroups.

Second, we recommend the IAG Executive Committee include the Associate Director for Agency Relations and the four Assistant Directors of the community of interest groups as ex-officio members. This, we believe, would help communication and coordination and provide incentives for more active involvement of the Assistant Directors. Further, in light of current difficulties with the mission subgroups, we recommend that the Executive Committee review the current IAG organizational structure. Specifically, we suggest the Committee consider alternative methods of organizing the personnel directors. Other organizational structures which might be considered include small agency/large agency groups or issue task forces to study issues of interest to personnel directors.

IAG should consider setting an annual policy agenda in conjunction with OPM's policy agenda, which could then be used as the basis for planning quarterly conferences. Task forces could be established to address these policy issues. This approach would be proactive and thus strengthen the image of IAG and personnel directors. With task forces studying policy issues, it will also be easier for OPM to continue and more actively involve the personnel directors in the early stages of policy development. Further, the

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personnel directors will be more able to bring policy matters of concern to OPM's attention. One method to achieve and institutionalize dialogue on policy matters would be through an annual meeting of the full IAG with the OPM Director and Deputy Director to discuss priorities prior to OPM's annual planning process.

We believe that adoption of these recommendations would increase the efficiency and effectiveness of the IAG as well as continuing to support the role of the personnel directors in the policy advisory function and foster regular communication and information sharing between agencies and OPM.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, House and Senate Committees on Appropriations; the Chairmen, House Committees on Post Office and Civil Service and Government Operations and Senate Committee on Governmental Affairs; the Director, Office of Management and Budget; and the Executive Committee of IAG.

Sincerely yours,

H. L. Krieger
Director

APPENDIX XV

Office of the Special Counsel

1717 H Street, N.W.
Washington, D.C. 20419

September 1, 1981

Mr. Clifford I. Gould
Director
Federal Personnel
Compensation Division
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Gould:

The Office of the Special Counsel is in general agreement with the information contained in the draft GAO report to the Congress on the second year activities of our office. As your staff is aware, the office has begun several initiatives under the newly appointed Special Counsel to improve the quality and to expedite the disposition of our caseload. The Office of the Special Counsel has taken the position in its report to the Congress that coverage under the Civil Service Reform Act should be extended to many of the employees presently excluded.

I would be pleased to discuss any of these comments with you.

Sincerely,

William E. Caldwell

WEC/mfh

APPENDIX XVI

THE VICE-CHAIR OF THE MERIT SYSTEMS PROTECTION BOARD

Washington, D.C. 20419

August 28, 1981

Mr. Milton J. Socolar
Acting Comptroller General
of the United States
General Accounting Office
441 G Street, NW
Washington, D. C. 20548

Dear Mr. Socolar:

Thank you for providing us with a copy of your draft report to Congress on the second year activities of the Merit Systems Protection Board, the Office of the Special Counsel, the Federal Labor Relations Authority, and the Office of Personnel Management. We have reviewed the report and have no comment with respect to the findings and observations you have made. If you have any questions or require any additional information on the Board's activities, please do not hesitate to contact me.

Sincerely,

Ersa H. Poston

Ersa H. Poston

APPENDIX XVII

UNITED STATES OF AMERICA
FEDERAL LABOR RELATIONS AUTHORITY
1900 E STREET NW. ● WASHINGTON, D.C. 20424

OFFICE OF THE EXECUTIVE DIRECTOR

September 8, 1981

Clifford I. Gould, Director
Federal Personnel
and Compensation Division
General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Gould:

The staff of the Federal Labor Relations Authority has reviewed the draft of the General Accounting Office report "Second Year Activities of the . . . . Federal Labor Relations Authority."

We have no objections to the report as drafted.

Sincerely,

James J. Shepard
Executive Director

Enclosure

United States
Office of
Personnel Management

Washington, D.C. 20415

In Reply, Refer To Your Reference

Mr. Clifford I. Gould
Director
Federal Personnel and
Compensation Division
General Accounting Office
Washington, D.C. 20584

Dear Mr. Gould,

This is in response to your request for comments on Chapter 5, Office of Personnel Management, contained in the draft of your second annual report on implementation of the Civil Service Reform Act of 1978.

The chapter on OPM in the draft of your second annual report is a summarization of the highlights of GAO reports issued during the past year concerning:

- the Senior Executive Service,
- merit pay and performance appraisals,
- the Federal Equal Opportunity Recruitment Program, and
- the research and demonstration program.

Introduction:

On page 53 (first page of Chapter 5), in the enumeration of OPM's functions under CSRA, it might help the reader's understanding to mention OPM's evaluation role, which helps ensure that CSRA is implemented in accordance with provisions of law, regulation, Congressional intent, and sound management principles. (See note.)

Senior Executive Service:

The draft chapter summarizes findings in the GAO report entitled First Step Completed in Conversion to Senior Executive Service, FPCD-80-54, dated July 11, 1980.

First, on page 55, the statement "pay increases would come only when merited by performance" implies an explicit relationship between executive pay and performance. In fact, such increases may be based on performance, but they may be based on other factors as well. (See note.)

APPENDIX XVIII

Second, the footnote at the bottom of page 56 should be corrected to show that SES positions, not appointments, are designated either as general or career reserved. (See note.)

Third, we feel the original report on SES conversion (FPCD-80-54) presented a more balanced picture of the accomplishments and problems, particularly the time constraints, encountered in converting to the SES. We agree with your statement in the original report that "In light of its time constraints, OPM did a creditable job serving as the focal point for SES conversion" (FPCD-80-54, page 7).

We agree that more consistency in SES allocation requests and authorizations is desirable, and are working toward this goal for future allocation periods.

Merit Pay and Performance Appraisals:

My May 4, 1981 letter to key Members of Congress and the Acting Comptroller General accurately represents our current view of your findings in this program area.

In brief, the key points in my letter were:

1. We agree with GAO on the need for thorough pre-testing of both the performance appraisal and merit pay plans in all agencies. We issued guidance to all agencies which recommended this very strongly. We have also provided agencies technical assistance, including extensive computer simulations of agency merit pay plan operations.

2. We have no plans to offer agencies extensions from their October 1981 deadline for implementing merit pay.

3. We agree with GAO that training is a key ingredient for the successful implementation of merit pay. We feel that all agencies will provide, on their own and through OPM-provided training, at least the minimum amount of training that is necessary to make the system work by this fall.

4. We agree that Congress should have information on the cost of merit pay implementation, and will carry out our plans to provide this information.

Federal Equal Opportunity Recruitment Program:

The draft chapter summarizes findings in GAO's report Achieving Representation of Minorities and Women in the Federal Workforce, FPCD-81-5, dated December 3, 1980. The report reflects the status of FEORP implementation in 1979 and early 1980.

APPENDIX XVIII

Please note that the EEOC and OPM do not share responsibility for administering FEORP (pages 71 and 73, third paragraphs). EEOC had initial responsibility to establish guidelines, but OPM now has sole responsibility for implementing and administering a continuing FEORP. (Section 310 (c) and (d) of CSRA, 92 Statute 1152, 1153). We must, however, coordinate program administration as required by Executive Order 12067. (See note.)

The language in the first paragraph on page 76 should be checked. It appears that the names of EEOC and OPM have been reversed. We previously agreed with the GAO recommendations on the need for better coordination of data collection and FEORP/AAP reporting requirements (see our January 27, 1981 letter to Comptroller General Staats responding to GAO's December 3, 1980 report entitled Achieving Representation of Minorities and Women in the Federal Workforce).

Research and Demonstration Program:

OPM has completed the final drafts of regulations and an FPM chapter which provide guidance to agencies on the research and demonstration programs. The guidance emphasizes the requirement for consultation and negotiation with employees and labor unions concerning demonstration projects.

Thank you for the opportunity to comment on the OPM portion of GAO's second annual report on CSRA implementation.

Sincerely yours,

Donald J. Devine
Director

Note: OPM was asked to comment on a preliminary, longer draft version of this report. Therefore, the page numbers and some of the language cited by OPM do not apply to this final version.

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